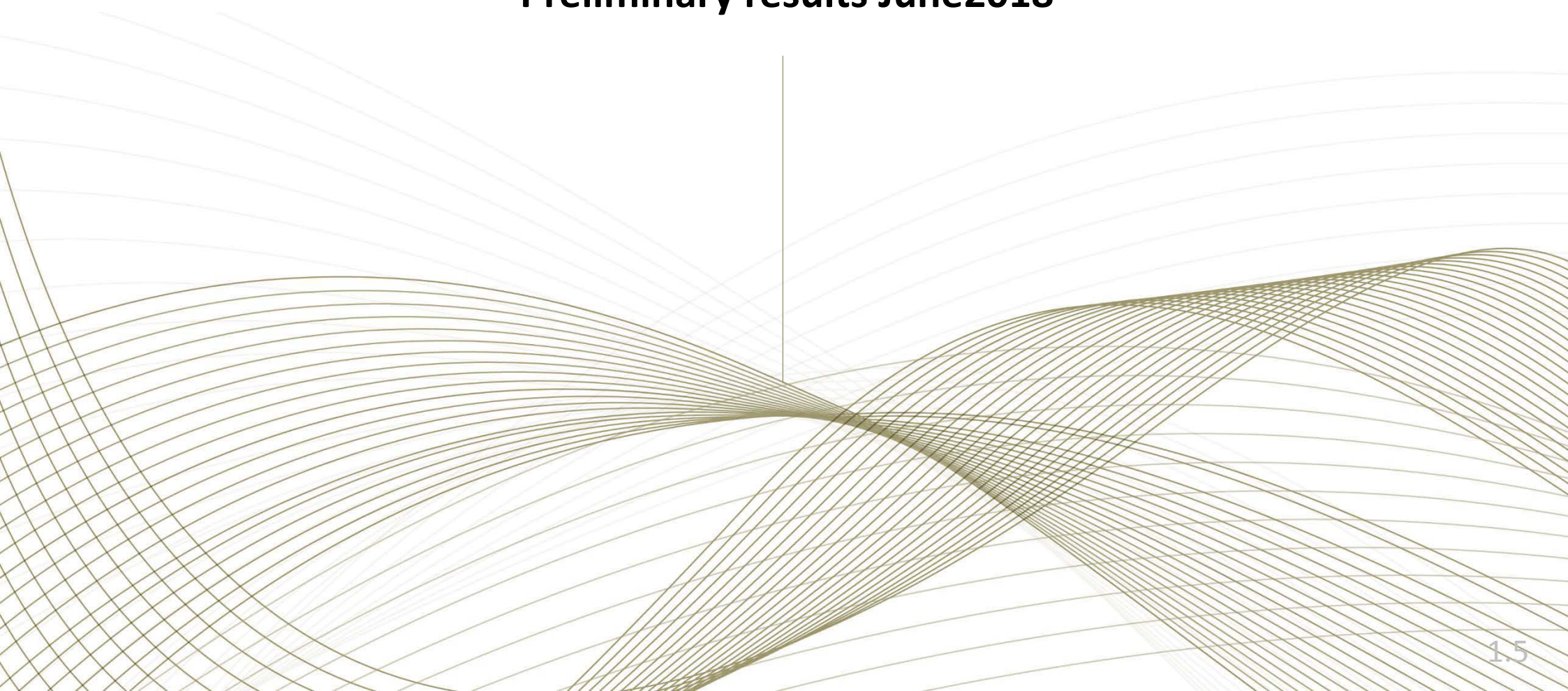
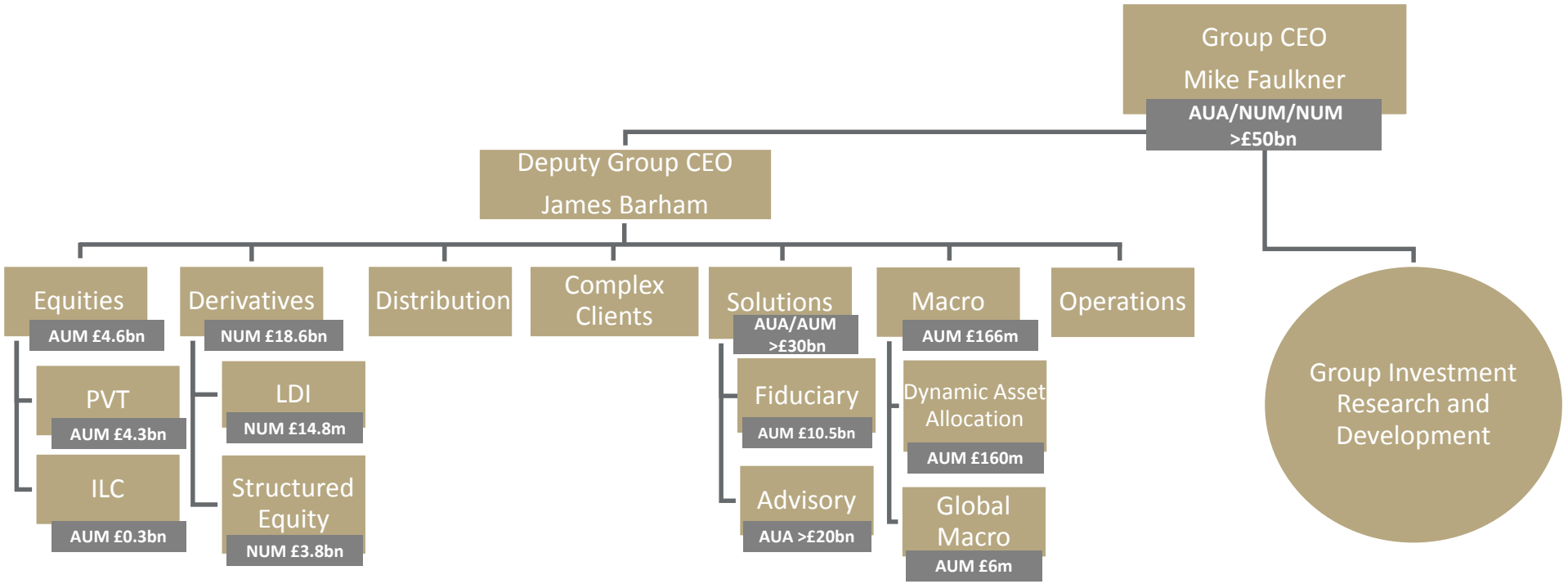
RIVER AND MERCANTILE GROUP

River and Mercantile Group PLC

Preliminary results June2018



River & Mercantile Group



**AUM/AUA at June 2018*

Results Highlights

Growth in fee earning AUM/NUM YoY

9%

£33.8bn

Growth in net management and advisory fees YoY

15%

£64.2m

Performance fees

£10.6M

Growth in statutory profit

13%

£15.1m

Change in adjusted profit YoY

0%

£12.9m

Second interim and final dividends

11.0P

"We continued to perform well and moved past some issues we faced. We have continued to strengthen our corporate processes and reinforce our culture."

"We are well positioned to make good progress towards strategic objectives"

Themes from results

1 Broadening Distribution

£5.7bn
12 months sales

2 Investment outperformance

All but one strategy[1] above benchmark

3 Lower attrition

8%
Regretted institutional attrition

4 Revenue stability from diversification

56%
Revenue not linked to equity markets

5 Strong underlying revenue growth

15%
YoY growth

6 Performance fees

£10.6m

7 Dividends delivering returns to shareholders

85%
Adjusted profits distributed

8 Moving past uncertainties

FCA, CMA, PM

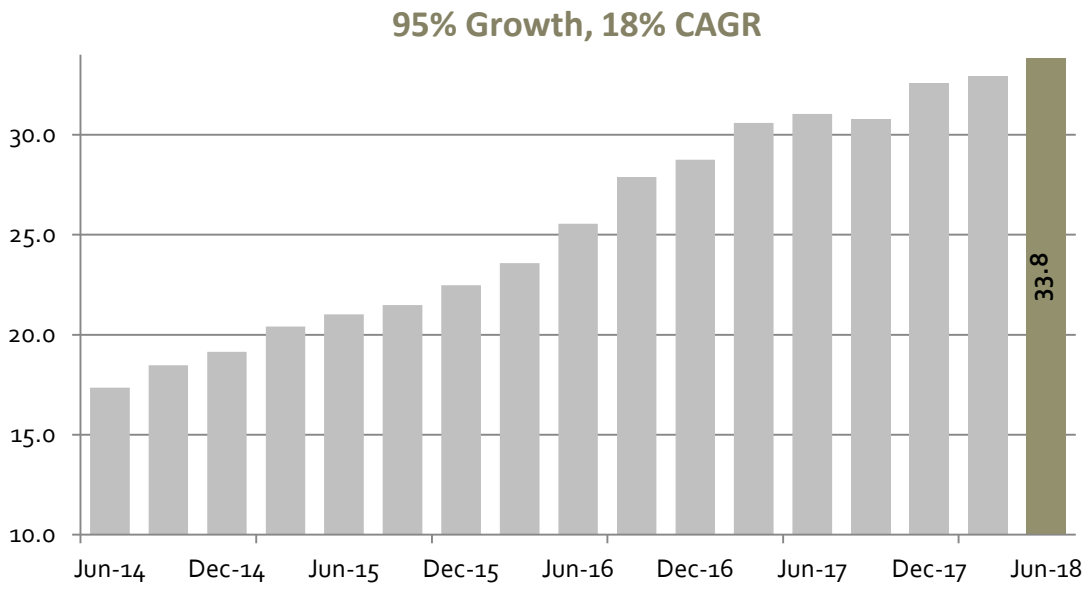
1. Where investment outperformance is the relevant objective. Since inception.

1. Broadening distribution

The Group continues to broaden its distribution channels, including recent Australian and New York offices

Year ended June 2018 (£'m)	Total AUM/NUM
Opening fee-earning AUM/NUM	**31,049**
Sales	**5,699**
Redemptions	**(4,554)**
Net rebalance and transfers	**973**
Net flow	**2,118**
Investment performance	**676**
Closing fee-earning AUM/NUM	**33,843**
Increase/(decrease) in fee earning AUM/NUM	9%

Redemptions include a £1.5bn structured equity mandate which rolled-off at contractual maturity



- Global Macro Fund track record building
- Establishment of New York and Australian presence

2. Strong investment outperformance

The Group has delivered strong and consistent long-term investment returns across all our strategies.

Returns of largest strategies[1,4]	1 Year (%)		Since Inception (% p.a.)		
Strategy	Abs.[2]	Rel.[3]	Abs.	Rel.	Date
TIGS	2.6	1.2	10.1	2.5	Jan-04
Stable Growth Fund	3.4	(0.1)	8.4	4.6	Dec-08
UK Income[5]	8.4	(0.6)	13.4	1.4	Feb-09
UK Smaller Companies	15.4	6.6	13.5	6.6	Nov-06
World Recovery	7.9	(1.1)	16.9	5.0	Mar-13
UK High Alpha	13.2	4.2	9.1	2.7	Nov-06
UK Dynamic Equity	11.1	2.1	8.1	2.1	Mar-07
UK Equity Micro Cap Investment Company	30.3	21.5	29.2	17.3	Dec-14
Global High Alpha	10.8	1.8	17.0	4.1	Dec-14

1. *Full listing will be contained in June 2018 Annual Report*
2. *Absolute performance shown gross of fees*
3. *Relative to benchmark on gross of fees basis*
4. *For those strategies where investment outperformance is relevant objective*

We have clearly demonstrated our ability to deliver strong active returns, alongside passive offerings such as structured equity.

June 2018 – all but one of our strategies are ahead of benchmark since inception[4]

3. Low attrition

The nature of the Group's client base, plus the focus on outcome oriented client engagement focussed on understanding client needs first, leads to client satisfaction, longevity of engagement and therefore low attrition.

The Group measures this by Regretted institutional attrition (RIA)

This is the opening AUM/NUM of lost institutional clients, dividend by total AUM/NUM. It excludes pension clients which have entered the Pension Protection Fund due to the sponsors default or pensions who have moved to buy-in or buy-out, and redemptions arising for operational cash flows such as fund benefit payments. This is reported six-monthly, with the December results below:

£'m	Fiduciary Management	Derivative Solutions	Equity Solutions – Institutional	Total
Gross outflows	419	3,094	194	3,707
Opening AUM/NUM	10,528	16,888	1,812	29,228
RIA year ended June 2018	**0.2%**	**14%***	**0.3%**	**8%***
RIA year ended June 2017	1.1%	3.6%	11.6%	3.0%

*Includes a £1.6bn structured equity mandate which rolled-off at contractual maturity

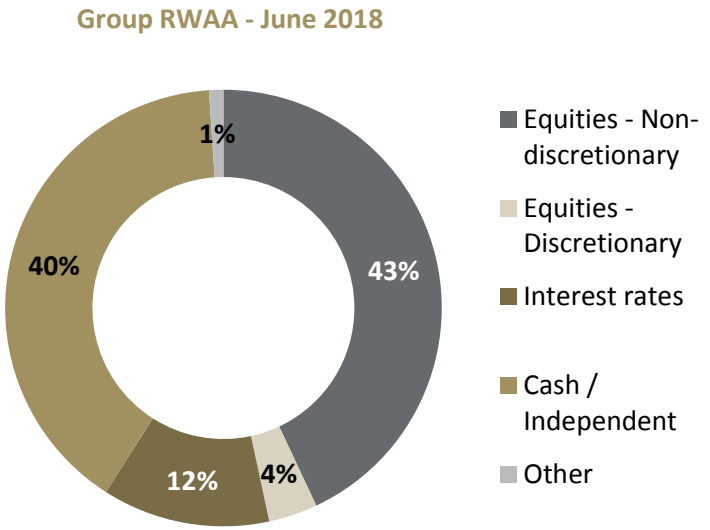
RIA is not directly measured for Wholesale Equity Solutions as investor redemption decisions tend to be driven by their asset allocation and investment performance outcomes. We closely monitor these outcomes in particular performance outcomes to determine whether the causes for wholesale attrition are negative client outcomes.

4. Revenue stability through diversification

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

To illustrate the mix of revenue sources, the Group reports the "Revenue-weighted asset attribution" (RWAA)

This classifies our management and advisory fees according to the asset type driving the revenue generation.



The Independent category comprises:

1. Advisory revenues, which are not correlated to markets (and are often counter-cyclical)
2. Derivatives NUM. As fees are typically charged on contract notionals rather than market exposure values, these are largely independent of market moves
3. Cash in investment portfolios (minimal)

5. Strong underlying revenue growth

The strong growth of AUM/NUM at stable margins has led to an increase in net management and advisory fees of 15% year-on-year.

Underlying revenue growth

£'m	Revenue (£'000) June 2018	June 2017	June 2016	Growth (%) 2017/18	2016/17
Net management fees	54.0	45.4	36.8	19%	23%
Net advisory fees	10.2	10.5	8.9	(3%)	18%
Total net advisory and management fees	**64.2**	**55.9**	**45.7**	**15%**	**22%**

Advisory - In the wake of Brexit last year many clients looked for specific project work which led to increased project revenue in the year ended June 17, which was not matched in the current year.

6. Performance fees

Fiduciary Management

Deferred performance fees can be earned by future performance at or above benchmark:

Estimated Fiduciary performance fees £'m			
Outperformance each year	Actual fees £m	Estimated TIGS performance fees £m	
	June 2018	June 2019	June 2020
-2%	8	9	0
0%		11	2
2%		13	6

Equity Solutions

In July 2018, a further £2m performance fee crystallised in respect of the River and Mercantile MicroCap Investment Company. This will be recorded in the FY19 results.

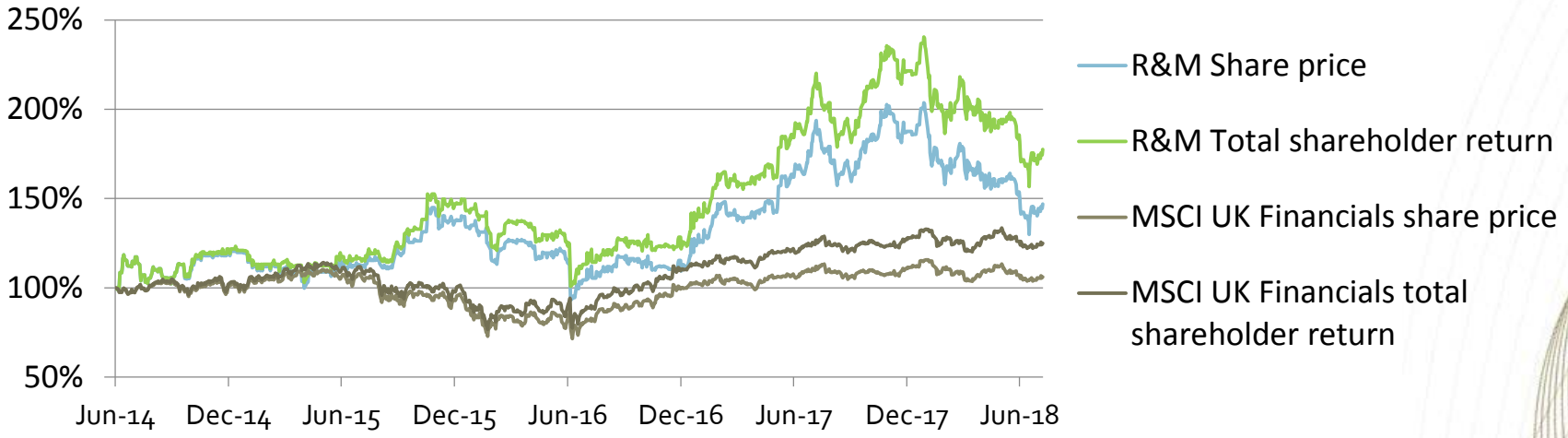
All performance fee eligible assets within 2% of benchmark or better as at 30 June 2018

7. Dividends delivering returns to shareholders

The Group's stated dividend policy is to pay at least 60% of adjusted profits to shareholders. Practice has been to pay above this:

Adjusted basic EPS June 2018	**21.9p**	Included in FTSE Small-Cap index since June 2018
Total dividends in respect of year:	**18.6p**	
	85%	
2nd Interim dividend	**5.5p**	**paid 2nd Nov, record date 12th Oct**
Final dividend	**5.5p**	**paid 14th Dec, record date 23rd Nov**

Group Share price and TSR performance



8. Moving past uncertainties 1

FCA competition matter

Whilst no final decision has been reached by the FCA, the Group has reduced the amounts recognised in respect of the matter to £109,000 following guidance from the FCA on the likely quantum of penalty should one be imposed.

Portfolio manager dismissal

"This action attracted media comment and led to some outflows of money from funds with which the individual in question was associated. I am glad to say, however, that they were less overall than we had prepared for. This reflects a generally positive reaction to our taking decisive action to protect our culture, but also was in no small part due to the great efforts made by our senior equities team to ensure that our clients were fully supported during this period, and I am most grateful for their commitment.

We have used this experience to remind all our staff of the importance of keeping a strong culture of compliance, openness, adherence to our conduct rules and team spirit. I firmly believe that companies that cannot exhibit such an approach will be unable to survive and prosper."

8. Moving past uncertainties 2

CMA market investigation

CMA investigation into fiduciary management and investment consulting market – provisional decision report issued 18th July 2018

Recommendations include:

- Extension of FCA regulatory perimeter (some areas previously IoA regulated or unregulated)
- Requirement for competitive tender process
- Increased consistency of investment performance reporting
- Increased clarity of fees
- No requirement to split investment consulting from fiduciary management activities

CEO strategic objectives

- We intend to grow our net management and advisory revenue, organically, at a minimum of 12% per annum;
- We may make acquisitions to grow faster, but only if it takes us faster in the above direction and in a way consistent with our central idea;
- We will aim to increase returns to shareholders through performance fees;
- We will aim to grow the smaller channels faster, in order to be significantly more diversified by channel in the next three to five years;
- We will launch Global Macro, International (ex US) equity and international (ex US) smaller companies products, along with other products, to support this growth strategy;
- We will continue to grow our underlying operating margins to 30%-35% over the medium term, by growing remuneration and admin expenses at a lower rate than net management and advisory fees.

Area/fund	Current AUM £'bn	Estimated capacity £'bn	Revenue at estimated capacity £'m
Fiduciary Management including DAA			
Fund	10.6	40	65-75
Derivatives – LDI	14.8	>30	20-25
Derivatives – Structured equity	3.8	>20	10-15
Equities	4.6	15	75-85
Total			**170-200**

Shareholder information

Significant shareholders (as at Sep 18)	
Punter Southall Group	38%
Staff and Management	13%
Pacific Investments	7%
Aberdeen Standard Investments	7%
Aviva Investors	6%
Legal and General	5%
Unicorn Asset Management	4%
Analyst consensus target price (24 Sep 2018)	
Canaccord	355
N+1 Singer	355
Numis	345
Consensus	**352p**

Group Summary

- Distinctive, differentiated advisory and investment solutions group
- Focused on building long-term, trusted adviser relationships with clients through understanding their needs and delivering their desired outcomes
- Combining complementary, synergistic and diversifying divisions to generate stable growth in underlying assets and underlying earnings with limited beta exposure
  - Consistent generation of positive net sales since IPO
  - Low historic regretted asset attrition in the institutional book
- Well-placed in a growth market with a scalable platform capable of delivering attractive shareholders returns and dividends
  - Strong investment performance
  - AUM has grown every quarter but one since IPO at largely stable margins. AUM CAGR of 18% pa
  - Delivered a >5% dividend yield: dividend pay-out policy of "at least 60% of adjusted earnings"
- 2018 preliminary results showed continued progress towards stated growth aspirations and demonstrate the execution of our strategy

River & Mercantile summary investment case

Highly differentiated business model generating genuine franchise value and attractive returns

Value drivers

Strategic

- Transparent client engagement process
- Deep understanding of client requirements
- Client-aligned, building long term trusted relationships
- Well-designed solutions to deliver desired outcomes
- Multiple, complementary services
- Capturing more of the client value chain for longer
- Intellectual capital

Equity

- Well-placed in a growth market
- Diverse sources of revenue
- High inforce value
- Relatively low beta correlation of revenues
- Low marginal cost of growth
- Sale efforts focused on incremental business
- Scalable platform

Measured by

- AUM/NUM growth, stability and diversity
- Regretted client attrition
- Revenue weighted asset allocation
- Personnel and human capital
- Investment track record
- Revenue margin stability
- Operating leverage (profit margin)
- Cash generation
- Pay-out ratio

Divisions

Fiduciary Management

June AUM	Margin	2018 Revenue	Headcount	Clients	2018 AUM growth
£10.6bn	17-18 bps	£18.4m	~60	~120	1%

Description

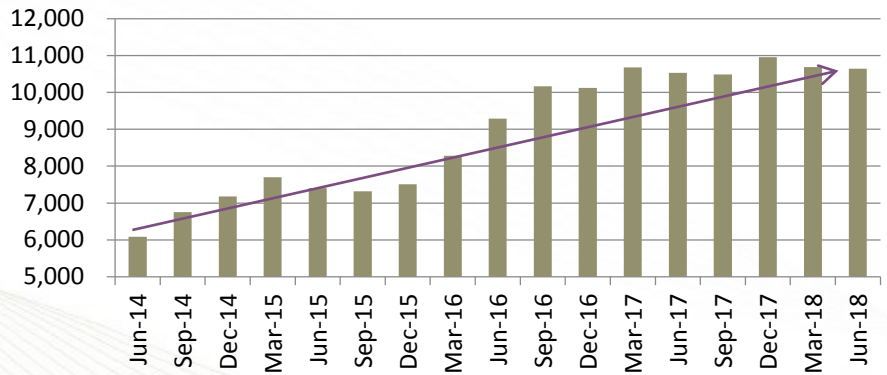
- The Group's fiduciary product is called Total Investment Governance Solution (TIGS)
- Pension trustees delegate investment management to the Group, under a governance framework
- Full investment discretion subject to IMA requirements
- Typical client is a small to medium scheme up to c£500m
- Strong investment performance over long term horizon and especially during market dislocation e.g. GFC and Brexit
- TIGS clients are mostly hedged for around 90% of interest rate risk

Trends and outlook

- Recent AUM growth has been suppressed by low RFP activity pending CMA investigation findings
- Provisional findings now published – likely to be net positive to the Group

Fiduciary management AUM growth

75% Growth, 15% CAGR



Derivative Solutions

June NUM	Margin	2018 Revenue	Headcount	Clients	2018 AUM growth
£18.6bn	6-7 bps	£11.8m	~25	~110	10%

Description

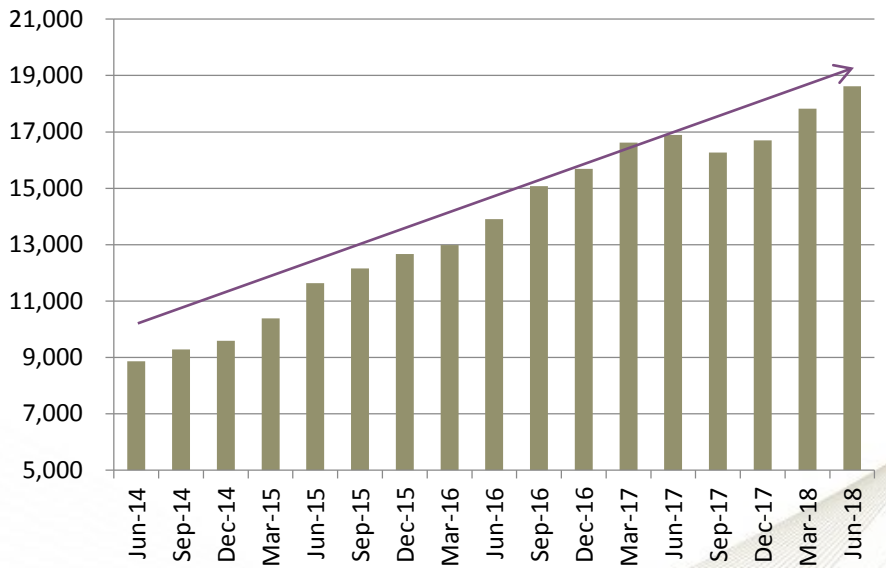
- Provides hedging for liability driven investment (LDI) and structured equity which are long-term investments for clients
- Focused on protecting against downside risks (LDI) and providing more predictable returns at lower cost (structured equity)
    - **Not** about taking speculative positions
    - Uses vanilla derivatives such as swaps and options and **not** esoteric products
- Ability to generate real-time derivative pricing information to clients when designing products
- Revenue is earned on "notional under management" (NUM), not mark to market value, therefore largely protected from adverse market moves

Gilts & LDI NUM	Structured Equity NUM
£14.8bn	£3.8bn

Trends and outlook

- The IPO and move to River & Mercantile branding has allowed the Derivatives Solutions to market across a much broader client base
- Local government pension scheme opportunities
- H2 strong growth (11%)

Derivative Solutions AUM growth 110% Growth, 20% CAGR



Equity Solutions

June AUM	Margin	2018 Revenue	Headcount	Clients	2018 AUM growth
£4.6bn	53-54 bps	£23.8m	~25	~130	26%

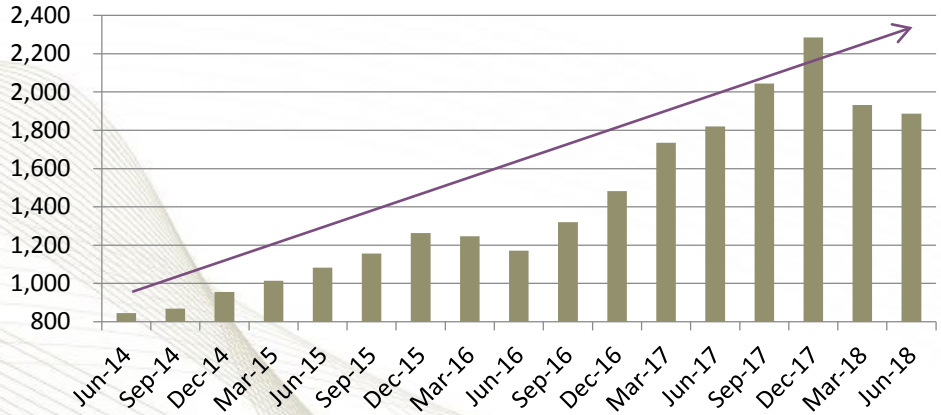
Description

- Provides global and UK-focused long-only equity strategies, based upon the Potential, Value, Timing (PVT) philosophy
- Distribution to two client categories:
  - Wholesale distribution to retail intermediaries: platforms, wealth managers, IFAs
  - Institutional clients including pension funds and local authorities

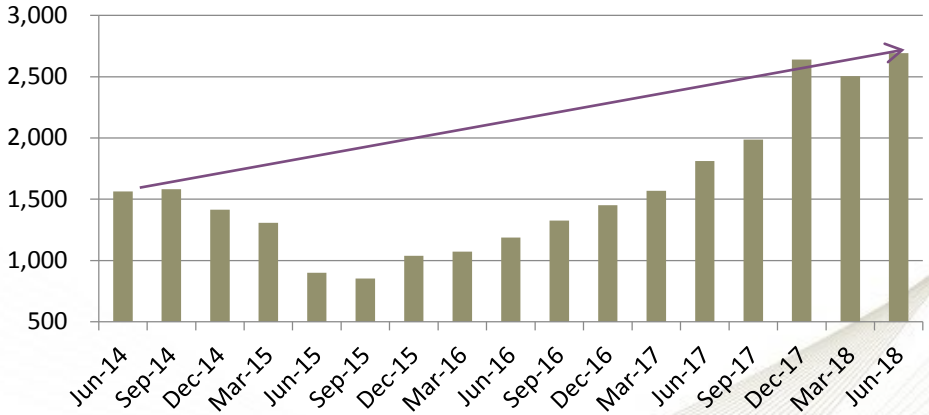
Trends and outlook

- Continued interest in PVT process in different formats and geographies including US and Australia

Wholesale AUM growth 123% Growth, 22% CAGR



Institutional AUM growth 72% Growth, 15% CAGR



Advisory

2018 Retainer fees	2018 Project fees	2018 Revenue	Headcount	Clients
£5.4m	£4.8m	£10.2m	~70	~180

Description

- The Group provides investment and governance advice to DB and DC schemes, and insurance clients
- In the US, actuarial advice is also provided
- The Group is paid a monthly retainer fee for ongoing advice and/or project fees for specific items
- Some retainers are paid as a percentage of assets under advice, with others on a time and materials basis
- Project fees are paid based upon time and materials

Trends and outlook

- The outlook for the division is for stable revenue levels, as whilst opportunities exist, the current focus in UK DB is for fiduciary management
- Standalone advisory work increasingly moving over to higher touch, higher value Fiduciary Management mandates

How we generate performance fees

Market Condition	Performance fee impact	Key drivers
Yields fall significantly, liabilities rise	Likely low to zero	Even if our return-seeking performance is strong, the under-hedge against the long term interest rate risk will be a source of underperformance
Yields stable, liabilities flat	Relatively good, assuming return-seeking assets produce decent positive returns	Performance fees driven by asset returns – as long as they are at reasonable levels we will be paid performance fees
Yields rise significantly, liabilities fall	Likely to be significant	Because we are hedging less than 100% of liabilities, we are likely to strongly outperform our objective, especially if risk assets are also performing

CMA provisional decision – CEO response

"We welcome the findings and in particular we would draw out a few key conclusions.

The report supports the broadening of the FCA's remit in relation to investment consultants. On this issue, we would go further. We believe it is essential for investment consultancies to submit to full FCA regulation. We have done so since the inception of our investment consulting activities in 2001 and consider that the disciplines it requires are highly supportive of good client outcomes. We also consider that advice on the appointment of Fiduciary Managers should be similarly regulated by the FCA.

The CMA has identified appropriate performance standards and total fee disclosures as a key area of necessary improvement in the fiduciary management industry. We strongly support these measures, and have historically always provided clients with clear performance against liability driven objectives. We have similarly provided a complete breakdown of all fees. Both measures are critical in an effective fiduciary management partnership.

The CMA supports the idea of competitive tendering in relation to Fiduciary Management, where a client is either adopting for the first time or where the initial appointment was not competitive. We have stated openly for a long time that this would be a good thing for the industry and believe it will be positive for client outcomes.

The CMA has not suggested splitting advisory and fiduciary activities, for a variety of reasons. We believe this is an appropriate decision because it affords clients a choice of how to engage with their investment partner, where this is something they consider valuable. Many of our clients have valued being able to adapt their governance model with us as their circumstances have changed. We therefore believe the CMA has taken the right approach in maintaining choice for clients.

Overall, we are highly supportive of the CMA's report and findings and look forward to working with them, alongside the FCA and tPR, to ensure broad industry adoption."

Employee/Shareholder alignment

High levels of staff participation in Group shares:

Employee SAYE participation	Total staff and management shareholding
60%	13%

ProShare

Proshare 2016: Winner *"Best commitment to employee share ownership in a smaller company"*

Employee share-based remuneration

~2m non-dilutive shares awarded to employees.

Performance conditions:

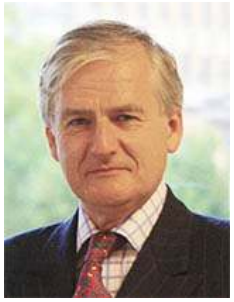
- Group TSR (>12%)
- Divisional revenue/AUM growth
- **Conduct**

Principals and Values

Strong business ethos on meeting client needs whilst operating within a **high integrity** environment, based on well understood Principles (Integrity, Authentication, Respect and Citizenship) and core operating Values (Open, Passionate, Demanding, Creative and Commercial)

River and Mercantile Group office locations

Board of Directors



Mr Dawson was appointed to the Board on 1 October 2017 as Chairman of the Company. He chairs the Nominations Committee.
Mr Dawson started his career in the Ministry of Defence before joining Lazard, the investment bank, where he spent over 20 years before cofounding Penfida Limited, a corporate finance advisor to pension fund trustees.
He currently serves as a Non-Executive Director and Chair of the Remuneration Committee of National Grid plc and is the Chairman of Penfida Limited. Most recently, he served as Senior Independent Director and Chair of the Audit and Risk Committee of Jardine Lloyd Thompson Group plc. He previously served as Senior Independent Director and Chair of the Remuneration Committee of Next plc. He has also chaired three pension scheme boards of trustees.

Chief Executive Officer. Mr Faulkner founded P-Solve (now River and Mercantile Solutions) in 2001 and served as its chief executive officer until the merger. Under his direction the business became one of the first institutional advisers in the UK to offer fiduciary management to pension schemes. Mr Faulkner has 22 years of consulting and asset management experience. He was ranked number one in the Financial News category of Europe's most influential asset managers and included in the overall top 10 in its FN 100 Most Influential annual survey in 2011. Mr Faulkner is a Mathematics graduate from Imperial College, London

Deputy Chief Executive Officer. Mr Barham founded River and Mercantile Asset Management in 2006 with the backing of Pacific Investments and was its chief executive officer until the merger. Mr Barham was part of the team that founded and successfully floated Liontrust Asset Management PLC, where he established and managed the institutional business. He subsequently joined Intermediate Capital Group in 2004 as Marketing Director, leaving to found the R&M Asset Management business

Board of Directors

Mr Berry was the vice-chief executive officer of P-Solve (now River and Mercantile Solutions) until the merger. He has an Accountancy degree from the University of South Africa with a Masters in Finance from the London Business School and is a qualified Chartered Accountant. Mr Berry established P-Solve's bespoke hedging capability approach in 2004, leading work on the use of derivatives in liability-driven investments as well as the use of structured products for institutional pension clients. Mr Berry is a key point-of-call for advice and counsel for trustees and sponsors.

CFO and Head of Global Solutions. Mr Hayes is a former international FTSE 100 CFO with 20 years' experience of leading financial institutions. He began his career at Ernst & Young, transferring to Lehman Brothers where he held various roles including, amongst others, Global Fixed Income Controller, CFO for Europe and Asia and Head of Productivity and Process Improvement. At Man Group Plc he served as Group CFO and Company Secretary, managing the $2.9 billion IPO of a subsidiary and the acquisition of GLG Partners, Inc. He was also a trustee of the Man Group Plc Pension Plan and was a board member of BlueCrest Partners LLP from 2008 to 2011. He is a Certified Public Accountant.

Mrs Crawford-Ingle is a Chartered Accountant with extensive audit experience of multinational and listed companies. She was a Partner in PricewaterhouseCoopers specialising in Financial Services for 20 years during which time she led the Insurance and Investment Management Division and retired in 2008. She is currently a partner in Ambre Partners, a firm providing strategic, financial and operational advice to private equity firms and entrepreneurial companies. She was appointed as a Non-executive Director of FTSE 250 insurance business Beazley plc and Swinton Insurance in 2013, where she chairs the audit and risk, and the audit committees, respectively. Mrs Crawford-Ingle is the Chair of the Audit Committee and of the Client Engagement Committee and additionally sits on the Remuneration, Nomination and Risk Committees.

Board of Directors

Mr Minter-Kemp has 25 years' experience distributing fund management through authorised intermediaries. During his career, he has acted as group sales director for unit trust and investment trust companies, and subsequently for HSBC Asset Management, Europe. Mr Minter-Kemp then joined Cazenove Capital's investment funds business in 2001, as managing director of investment fund management. Mr Minter-Kemp remained with Cazenove for 13 years until the company's acquisition by Schroders plc in July 2013, and was instrumental in building external funds under management from approximately £300 million to £6.5 billion. Mr Minter-Kemp is the Chair of the Remuneration Committee and additionally sits on the Risk, Audit, Nomination and Client Engagement committees

John Misselbrook was appointed to the Board on 16 February and is the chair of the Risk Committee. Additionally John sits on the Audit, Remuneration and Nomination committees. John has extensive financial services and non-executive experience. John currently serves as Chairman of JPMorgan Chinese Investment Trust Plc, Chairman of Northern Trust Global Services Plc and as a Non-Executive Director and Chairman of the Risk and Remuneration Committees of Brown Shipley & Co. Limited. John was formerly Chairman of Aviva Investors and served as the Chief Operating Officer of Baring Asset Management Limited for 11 years.

Mr Punter began his actuarial career with Duncan C Fraser & Co, where he became a partner, prior to the company being acquired by William M Mercer. In 1988, he founded Punter Southall Group Limited, together with Stuart Southall.
Mr Punter is the CEO of Punter Southall Group and has over 30 years' experience in the actuarial profession, with particular expertise in the areas of UK pensions and investment strategy. He is also one of the firm's specialists on the issues surrounding pensions in mergers, buy-outs and due diligence deals and is co-author of Pensions Issues in Mergers and Acquisitions (Longman).

Other information

DISCLAIMER: This document contains information compiled from the Group's 2018 Preliminary results and other publicly available information. This document contains forward looking statements with respect to the financial conditions, results and business of the Group. By their nature forward looking statements relate to events and circumstances that could occur in the future and therefore involve the risk and uncertainty that the Group's actual results may differ materially from the results expressed or implied in the forward looking statements. Nothing in this document should be construed as a profit forecast.

For questions and comments, please contact:

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