

# ES River and Mercantile UK Equity Income Fund

Quarterly Report  
to 30 September 2020

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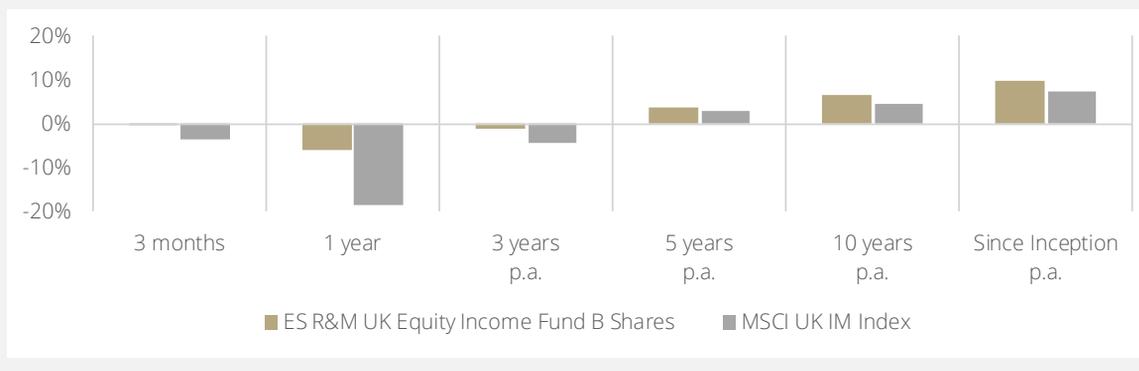
**RIVER AND MERCANTILE**  
ASSET MANAGEMENT

## Fund Objective

The investment objective of the Fund is to generate a rising level of income combined with the potential for capital growth. It will achieve this through investing in a portfolio which shall primarily consist of UK equities, however it may also invest in other instruments such as government gilts, corporate fixed income securities and convertibles.

## Performance

	Fund	Index	Difference
3 months	-0.4%	-3.6%	3.2%
1 year	-5.8%	-18.5%	12.8%
3 years p.a.	-1.2%	-4.1%	2.9%
5 years p.a.	3.6%	3.0%	0.7%
10 years p.a.	6.8%	4.6%	2.1%
Since inception p.a.	9.7%	7.6%	2.0%



	Fund	Index	Difference
3 years (cumulative)	-3.6%	-11.8%	8.2%
5 years (cumulative)	19.4%	15.7%	3.7%
10 years (cumulative)	93.0%	57.5%	35.5%
Since inception (cumulative)	193.3%	135.9%	57.4%

Source: River and Mercantile Asset Management LLP. Benchmark is the MSCI UK Investable Market Index, net GBP. Fund performance shown is of B share class (income units) and is calculated using the midday published price, net of an annual management charge of 0.75% 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.**

## Portfolio Summary & Key Risk Characteristics

Fund AUM	£124.7m	Tracking error	4.34 %
Strategy capacity	£1.5bn	Portfolio beta	0.95
Inception date	03 February 2009	Historic yield <sup>1</sup>	4.93 %
Number of stocks	81	Current yield <sup>2</sup>	3.92 %
Largest holding	Unilever 4.2 %		



The Synthetic Risk and Reward Indicator (SRRRI) 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](#).

<sup>1</sup>Historic Yield (of B share class) based on the dividends paid in the preceding 12 months as a % of current price. <sup>2</sup> Current Yield (of B share class) reflects the distribution that has accrued within the fund over last rolling twelve month period as a percentage of the mid-market share price. The fund's expenses are charged to capital. Neither yield calculation includes any preliminary charge and investors may be subject to tax on their distributions.

## Investment commentary

*The information contained in this report does not constitute as investment advice and should not be treated as a recommendation to invest in any security. The information is based on the historical performance of the ES R&M UK Equity Income Fund and may no longer be current. Any references to securities are for illustrative purposes only and these securities may no longer be held. The information should not be used as the basis for any investment decision. Any opinions expressed are opinions of the relevant portfolio manager and are given in good faith as of the date of the report but should not be considered operative at any date thereafter.*

## Market Background

UK equity markets fell over the quarter, firstly falling in July, then rising in August and again falling in September (MSCI ACWI -3.6% total return). Uncertainty regarding the US elections, fiscal stimulus, Covid-19 and how those factors would feed through to earnings growth and equity valuations were the main focus. Inflation expectations in major economies continued to soften despite the underpinning from governments and central banks. Small and mid-caps significantly outperformed during the quarter with positive returns of 7.7% providing support to our differentiated and diversified multi-cap income strategy.

## How did we perform and why?

*(Fund performance references the B share class and is calculated net of a 0.75% p.a. annual management charge)*

The Fund fell 0.4%<sup>1</sup> over the quarter versus a total return of -3.6% by its comparator benchmark, the MSCI UK Investable Markets index (IMI)<sup>2</sup>. Stock selection was the key driver of outperformance over the period with sector allocation also contributing positively to relative performance.

**Maxcyte**, a market leader in cell therapy supplying 20 of the top 25 pharmaceuticals companies continued to re-rate as the value of its electroporation machine sales, future milestone payments and potential royalties was increasingly recognised by the market. The world's largest global silver producer, **Fresnillo**, continued to perform strongly over the period as precious metals prices rose, as did **Highland Gold**. The relatively clean US conventional gas producer **Diversified Gas & Oil** demonstrated the defensiveness and sustainability of its business model in the face of falling gas prices, significantly outperforming the rest of the sector.

High quality small cap growth and income stocks such as **Strix** (safety switches and water filtration), **Smart Metering Systems** (demand management helping to decarbonise the UK economy) and **Future** (global multi-platform media company) were all positive contributors to performance during the quarter on the back of positive profit warnings primarily reflecting stronger than expected growth.

Negative contributors included **Bayer** (now sold) as it failed to gain traction in its Agri-science businesses, as well as **Easyjet** which is still suffering under lockdown conditions. Insurer **Lancashire** (-0.3%) retraced some of its summer share price increase. The longer-term implication of the near-term headline losses for the industry (California wildfires, active hurricane season), which have likely been driving near-term share price movements, is an attractive pricing environment into which Lancashire can deploy its strong balance sheet.

## Portfolio Activity

We purchased **3i Group**, a listed private equity company with upside risk to the valuation of their most significant portfolio holding, Action Group, a high growth European value retailer with a disruptive retail format. We also bought **Intertek**, a global market leader in supply chain testing. Their new tools to help enable corporates measure and report Scope 3 emissions look likely to provide an additional leg of growth. We added sustainable high-quality compounders **Diageo** and **RELX** to the portfolio, given attractive market and sector relative valuations.

<sup>1</sup> B share class (GBP), mid-day to mid-day pricing.

<sup>2</sup> Close-of-business to close-of-business pricing.

After a series of write downs on their renewables projects, we elected to exit **John Laing**. We also completed a full exit from the tobacco sector by selling the last of our holding in **British American Tobacco** as we do not have sufficient confidence in the sustainability of their business models. After strong re-ratings over the held periods, we exited **St James' Place Capital** after very strong performance during the bounce in the market from the March 2020 lows, as well as Life Insurance consolidation specialist, **Phoenix Group**. We booked profits in our gold holdings, **Barrick** and **Kinross Gold**, both having doubled and trebled respectively.

## Outlook

The UK market is relatively cheap, value dispersions are high and analyst earnings forecasts revisions are built on a myriad of uncertainties, providing exceptional opportunities for stock pickers today. We continue to identify exciting new trends, sustainable business models and stocks with very depressed valuations in one of the cheapest, most unloved, diverse and international equity markets in the world. During the coming quarter we shall see the US presidential election, further post-Brexit trade deal negotiations, likely news on vaccine progress or perhaps a fade in serious infections as well as more forward guidance on monetary and fiscal support. Our companies continue to expertly negotiate all of these twists and turns and we continue to invest in them and engage with them where appropriate, with our balanced approach to risk, deploying our multi-category, multi-factor and multi-cap strategy.

Thank you for your support.



### Daniel Hanbury

Head of Income and Small Cap Strategies

October 2020

## Fund Information

Launch date:	3 Feb 2009		
Fund manager:	Daniel Hanbury		
IA sector:	UK Equity Income		
Benchmark:	MSCI UK IM Index		
XD dates:	1 April & 1 October		
Dividend/Accumulation payment date:	31 May and 30 Nov		
Strategy capacity:	£1.5bn (pooled & segregated)		
Share class:	A	B	S
Launch price (shares):	100.00p	250.00p	250.00p
Share classification:	Retail	Wholesale	Institutional
Type of shares:	Income	Income	Income
Fund charges:			
Annual Management (AMC)	1.50%	0.75%	0.50%
Initial (up to)	5.25%	5.25%	5.25%
Ongoing Charge Figure (OCF) (incl. AMC)	1.63%	0.90%	0.57%
Minimum investment			
Initial	£1000	£2.5 million	£75 million
Subsequent	£500	£25,000	£50,000
Sedol	B3KQG33	B3KQG44	BJ0CJK1
ISIN	GB00B3KQG33 0	GB00B3KQG447	GB00BJ0CJK19
Bloomberg	RMUKEIA	RMUKEIB	RMUKEIS

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