

ES River and Mercantile UK Equity Smaller Companies Fund

Quarterly Report
to 30 September 2020

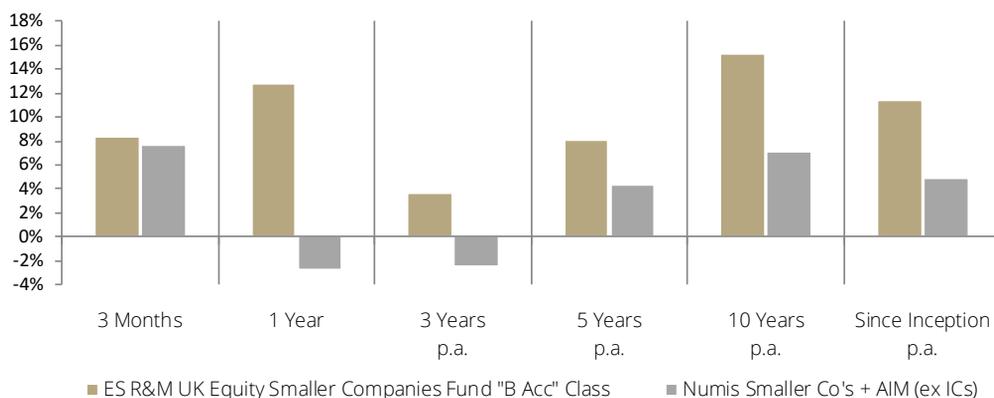
RIVER AND MERCANTILE
ASSET MANAGEMENT

Fund Objective

The investment objective of the Fund is to grow the value of your investment (known as “capital growth”) in excess of the Numis Smaller Companies + AIM excluding Investment Companies Index Net Total Return (the “Benchmark”) over a rolling 5 year period, after the deduction of all fees.

Performance

	Fund	Index	Difference
3 Months	8.3%	7.7%	0.7%
1 Year	12.7%	-2.8%	15.5%
3 Years p.a.	3.6%	-2.5%	6.1%
5 Years p.a.	8.0%	4.4%	3.7%
10 Years p.a.	15.3%	7.0%	8.2%
Since Inception p.a.	11.5%	4.9%	6.6%



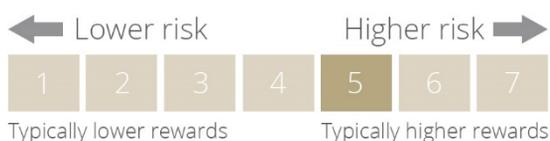
	Fund	Index	Difference
3 Years (cumulative)	11.2%	-7.2%	18.4%
5 Years (cumulative)	47.1%	23.8%	23.3%
10 Years (cumulative)	315.0%	97.6%	217.4%
Since inception (cumulative)	348.9%	94.1%	254.9%

Source: River and Mercantile Asset Management LLP. Benchmark is the Numis Smaller Companies plus AIM (excluding Investment Companies) index, net GBP.

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 0.75% 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	£301.6m	Portfolio beta	0.94
Strategy capacity	£750m	Tracking error	4.97 %
Inception date	30 November 2006	Active money	78.43 %
Number of stocks	78		
Largest holding	Smart Metering Systems 3.9 %		



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](#).

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 Equities Smaller Companies 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 election, fiscal stimulus, Covid-19's impact on the economy and how these factors would feed through to earnings growth as well as 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 the Numis Smaller Companies Index up 7.7%, providing a useful tailwind to our UK Smaller Companies 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 rose 8.3%¹ during the quarter, versus a total return of 7.7% by the Numis Smaller Companies plus AIM (ex ICs) index². Stock selection was the key driver of outperformance with sector allocation also contributing positively to relative performance over the quarter.

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. South African gold producer **Pan-African Resources** continued to perform strongly during the period as precious metals prices rose, as did **Highland Gold**. The **R&M UK Micro Cap Investment Company** performed strongly both in terms of NAV growth as well as seeing the company's discount continue to narrow.

High quality small cap growth and income stocks such as **Strix** (safety switches and water filtration), **Gamma Communications**, a supplier of unified communications solutions, and **Future**, the global multi-platform media company, were all positive contributors to performance in the quarter on the back of positive profit warnings primarily reflecting stronger than expected growth. The games developers continued to benefit from the accelerated trend in gaming at home, leading to strong performance from both **Team 17** and **Sumo Group**.

Sigma Capital, a pioneer of the UK private rented sector, was a positive contributor over the period with the shares gaining by a third. Sigma Capital is using partnerships with local authorities, Homes England, housebuilders and providers of capital to build thousands of high-quality family homes to let which is helping address the national shortage of housing stock. The most recent partnership with EQT Real Estate for a £1Bn Joint Venture to fund 3,000 homes in London was the catalyst for the share price improvement.

In terms of negative contributors, other than **John Laing** (see exit below), it was a case of some of our previously strong performers giving up some of their gains such as **Serco**, **Emis** and **Supermarket Income REIT**, which were all slight drags.

¹ B share class (GBP), mid-day to mid-day pricing.

² Close-of-business to close-of-business pricing.

Portfolio Activity

We added a number of names during the quarter. **Aptitude Software** supports CFOs in streamlining finance operations and addressing regulatory requirements and new accounting standards in high volume transaction sectors that require rapid and complex processing. Short-term softness in end-markets presented an attractive valuation at which to initiate a position in a business with strong long-term growth potential underpinned by the increasing digitisation of finance functions. Operating leverage and a mix shift towards software and subscription revenues provides significant scope for margin improvement ahead of market expectations. We added fast growing **Keystone Law**, a platform business for lawyers which essentially provides a service and flexibility to its lawyers in the same way that St. James' Place does to its financial advisors. We know the business well after being held in our Micro Cap Investment Company for a number of years.

Relatively small positions in **Greggs** and **lbstock** were exited on account of their deteriorating fundamentals. **Ashmore** was sold on account of its size (c£3bn mkt cap) and we elected to sell **Hastings** early in the market at its agreed bid price of 252p. After a series of write downs on their renewables projects, we elected to exit **John Laing**. We also added a number of recovery names to the portfolio, switching **lbstock** into rival brick supplier **Forterra**, buying US windows and doors specialist **Tyman** as well as defence outsourcer **Babcock International**.

Outlook

The UK market is relatively cheap, value dispersions are high and analyst earnings forecasts revisions are built on uncertainty, 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 with a balanced approach to risk, deploying our multi-category, multi-factor UK small cap strategy.

Thank you for your support.



Daniel Hanbury

Head of Income and Small Cap Strategies

October 2020

Fund Information

Launch date	30 Nov 2006		
Fund manager:	Dan Hanbury		
IA sector:	UK Smaller Companies		
Benchmark:	Numis Smaller Companies + AIM (ex ICs) Net Total Return		
Tracking error range:	4-10%		
Strategy capacity:	£750m		
XD dates:	1 April & 1 October		
Dividend/Accumulation payment date:	31 May and 30 Nov		
Share class:	B	B	S
Launch price (shares):	500.00p	250.00p	250.00p
Share classification:	Retail /Institutional	Retail /Institutional	Institutional
Type of shares:	Accumulation	Income	Income
Fund charges:			
Annual	0.75%	0.75%	0.50%
Initial (up to)	5.25%	5.25%	5.25%
Ongoing Charge Figure (OCF) (incl. AMC)	0.85%	0.85%	Estimated 0.57%
Minimum initial investment	£2.5m	£2.5m	£50m
Subsequent	£50,000	£50,000	£50,000
Sedol	B1DSZS0	BC4DSV5	BK6NVB0
ISIN	GB00B1DSZS09	GB00BC4DSV56	GB00BK6NVB05
Bloomberg	RMUKSEA LN	RMUKSEB LN	RMUKSES

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River and Mercantile Asset Management LLP

30 Coleman Street
London EC2R 5AL

www.riverandmercantile.com