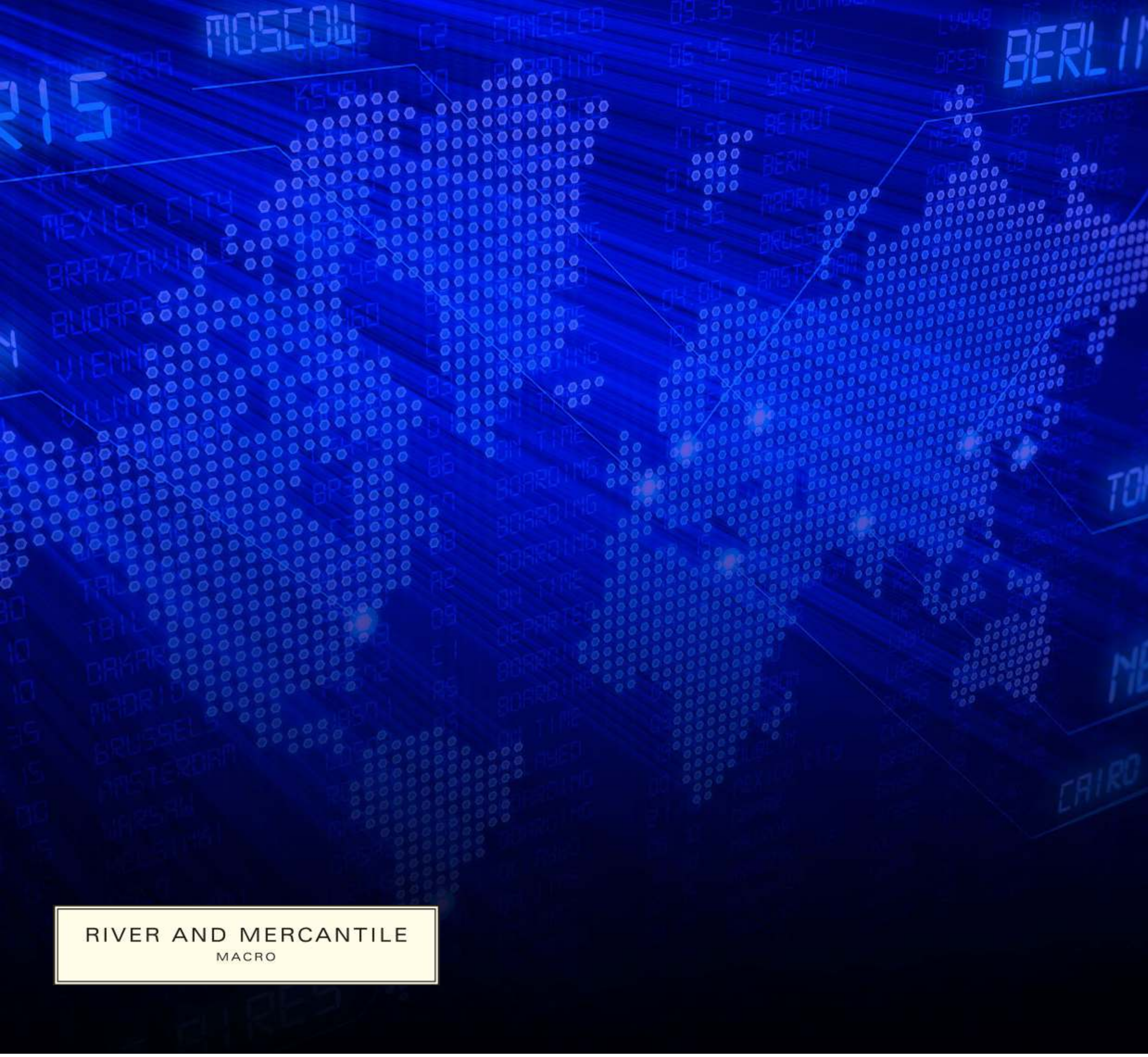


RIVER AND MERCANTILE
MACRO

Global Macro Fund

Quarterly Report
to 31 December 2019

RIVER AND MERCANTILE
MACRO

Global Macro Fund
Quarter 4, 2019

Investment objective and performance target

The fund aims to achieve long-term capital appreciation through compound growth. Compound growth is the annual growth rate of an investment applied year on year for a specified period of time.

The fund aims to produce double-digit returns over a cycle, with positive returns in equity market drawdowns.

Portfolio characteristics and risk analysis

Fund assets under management (AUM)	USD 125.62m	Value at Risk (VaR)[2]	2.51%
Strategy capacity	$ 10bn	Volatility	5.49%
Inception date	28 February 2018[1]	Sharpe ratio	1.56
		Percentage positive months	73%

Source: River and Mercantile Group
[1]Inception date taken as the date of seeding following a test-trade period after the fund's official launch on 25 Jan 2018.
[2]Using 99% confidence over 22-day Monte Carlo value at risk scaled up from 1 day.

Past performance

The tables below represent the performance of the fund, calculated using published NAVs net of fees and expenses. Past performance is not a reliable guide to future results.

	Cumulative (%)			Annualised (% p.a.)		
	3 months	YTD	1 year	3 years	5 years	Since Inception
USD (Acc) - Class A	-1.44	7.74	7.74	-	-	10.98
USD (Dist) - Class A	-1.53	7.63	7.63	-	-	10.92
GBP (Acc) - Class B	-1.62	6.38	6.38	-	-	9.61

Source: River and Mercantile Group.

Discrete monthly portfolio performance

USD (Acc) – Class A Shares

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY[3]
2019	0.62%	-0.43%	3.49%	-1.08%	0.08%	4.04%	1.17%	0.89%	0.27%	-2.18%	0.21%	0.54%	7.74%
2018	-2.00%	-5.23%	1.06%	3.53%	2.79%	2.47%	-0.76%	0.26%	-0.12%	-0.28%	1.26%	1.66%	12.41%

USD (Dist) – Class A Shares

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY[3]
2019	0.63%	-0.44%	3.49%	-1.08%	0.08%	4.05%	1.17%	0.89%	0.27%	-2.18%	0.12%	0.55%	7.63%
2018	-2.00%	-5.23%	1.06%	3.53%	2.79%	2.47%	-0.77%	0.26%	-0.12%	-0.28%	1.27%	1.65%	12.40%

GBP (Acc) – Class B Shares

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY[3]
2019	0.51%	-0.57%	3.40%	-1.27%	-0.05%	3.98%	1.04%	0.76%	0.16%	-2.17%	0.14%	0.42%	6.38%
2018	-2.01%	-5.32%	0.96%	3.41%	2.66%	2.46%	-0.95%	0.11%	-0.23%	-0.37%	1.24%	1.52%	11.26%

Source: River and Mercantile Group.
[3]The cumulative calendar year return shown for 2018 does not include the returns for January and February in line with the fund's inception date being taken as 28 February 2018 when the fund was seeded following a test-trade period.

Please note that any references to performance in the commentary below relate to the fund's gross performance in US dollars, before the deduction of any fees, unless otherwise stated.

Summary

Last year saw solid low double digit returns from the strategy in an environment of good but volatile returns from risk assets, and strong returns from rates as yields fell. Whilst Q4 was a more challenging end to the year as rates reversed their previous path, longer term performance continues to be consistent with our objectives, despite relatively modest overall exposure.

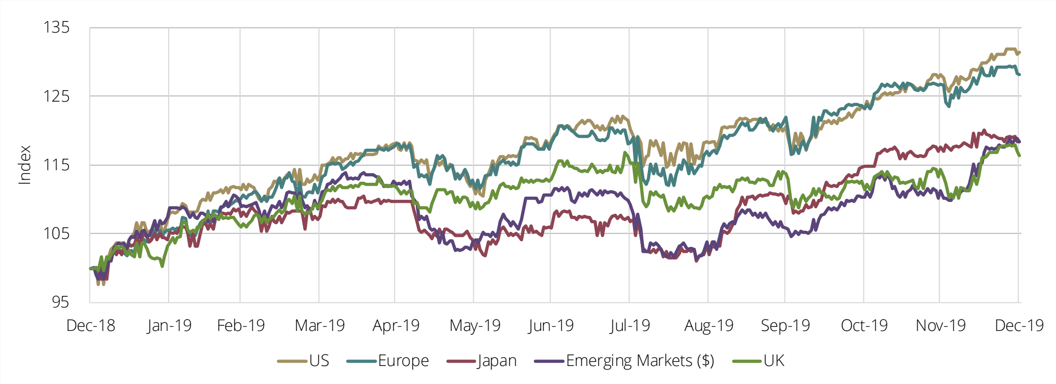
Market background

The year was unusual in that, for much of it, we saw falling PMIs, falling interest rates, more accommodative policy and a stronger dollar. In most situations that would be consistent with a bear market. The big difference was that credit conditions remained supported throughout the year and as a result equity markets, particularly the US, did very well.

Over the fourth quarter we saw what we believe was a transition from an environment of things getting worse economically to things expected to get better. We don't necessarily know for sure, but our view is that Q4 will represent the bottom for the PMI cycle. We always expected a delay between stimulus and expectations improving, but we believe that has probably happened now.

Against this backdrop, most risk markets moved higher over the quarter, with US and Emerging Market equities providing strong returns. The most significant moves were in sovereigns, amid a global pick up in rates.

GLOBAL EQUITY RETURNS



Source: Bloomberg.

How did we perform and why?

We played both risk and defensive markets last year, but the key theme for us was calling the significant reduction in bond yields during the year, primarily because of worsening economics. We were long governments – significantly so – for much of the year, and as a result our returns were achieved with a volatility of less than 6%, and a Sharpe ratio of 1.2. This position changed during Q4 as we migrated the portfolio away from rates towards risk assets.

Portfolio activity

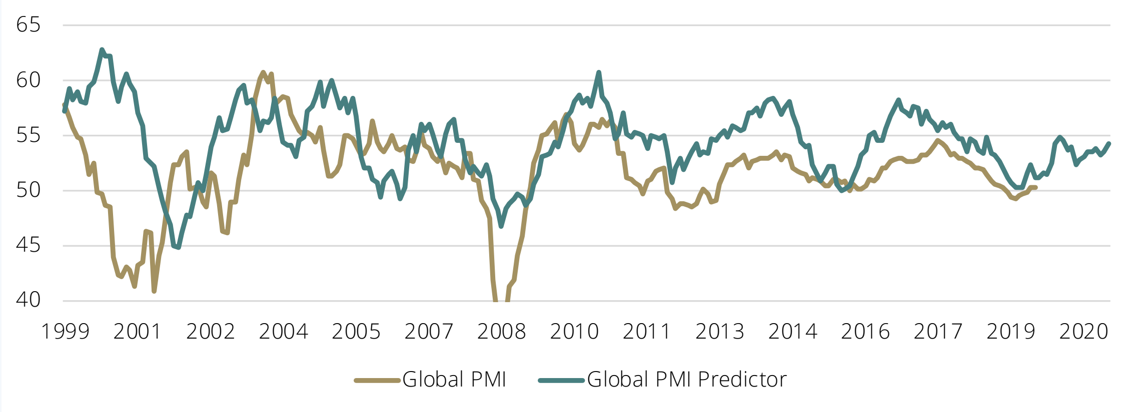
We cut rates substantially early in November, albeit we incurred some losses on this position during October. We also increased our risk exposure in expectation of improving economics. The portfolio is now overweight equity and credit relative to rates on a risk basis, with modest overall gross exposure.

Current outlook

As investors will know, we have a series of models that help us understand the macro influences on global markets. Running quickly through some of the big ones...

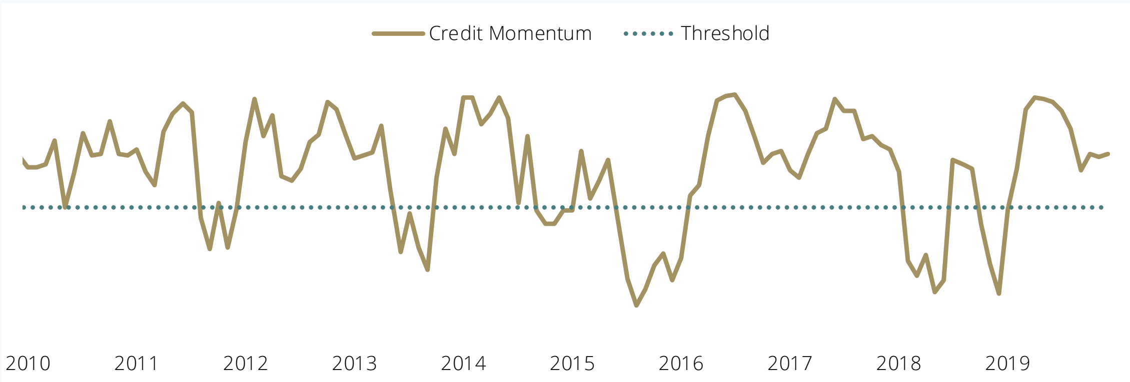
Consistent with our views through 2019, we expect PMIs to improve into 2020, leading the expectations for improved economic growth.

GLOBAL PMIs



Source: Bloomberg, River and Mercantile Investments Limited as at 31/12/1019.

Credit spreads also remain low and reducing. Below is our proprietary credit condition indicator, which is an immediate term driver, but we expect this to remain supportive through the first half of 2020.



Source: Bloomberg, River and Mercantile Investments Limited as at 31/12/1019.

As economic conditions improve and concerns abate, we expect bond yields to lift, especially as the squeeze in the bund market felt last year in all bond markets continued to abate. We expect US yields to lift this year in a meaningful way, along with yields for other developed sovereign bonds. We similarly expect increases in various commodities (Oil, Copper, Aluminium) – these price increases are based on stand-alone models for these commodities but are consistent with the theme of improving economics. This consistency is key for us in expressing views. The table below summarises our expectations for a range of these key factors.

The table shows forward 3-6 month best estimates for various factors, along with the current value.

	Current value	Forward 3-6 month best estimates
Global PMIs	50.1	52.0 – 52.4
US 10Y Treasury Yield	1.9%	2.5% - 2.6%
Aluminium	$1789.3	$1933.1 - $1969.9
Crude Oil	$61.1	$62.6 - $71.5
Copper	$279.7	$278.6 - $291.6

Source: River and Mercantile Investments Limited.

So what this all shows is an expectation of improving economics, supportive credit conditions, rising bond yields, and hardening commodity prices. We now come on to what this probably all means in 2020.

Outlook for 2020 – expected implications for markets

The economic conditions described in the previous section are helpful in that they describe an internally consistent view of a world where things are improving economically. There are some important implications of this:

- This environment, more than anything else, favours equities. This case is strengthened by the low level of credit spreads (and government yields), both of which imply the cost of borrowing for companies is low. This is a great environment to produce shareholder returns.
- A risk-on environment, all else being equal, will tend to favour the ROW over the US. The same is also true for the trade weighted dollar.
- VALUE SHOULD BE BACK! The above environment, more than anything else, should favour cheapness. It is also likely to favour cyclicals over defensives, but more than anything what it shouldn't favour are anti-beta stocks that have done well as a function of bond yields falling. There are quite a few of these – more on this below.
- Exposure to assets that respond well to rising commodities should be an opportunity. In fact there are some real opportunities here in the world.

These themes should dominate markets during 2020, and if we are right there are significant returns to be made by playing them.

What we are likely to do

We have already been increasing our equity allocations significantly and expect that we will increase them further. Those familiar with our process will know that we need our macro views to be confirmed by market motion in order to place significant positions. The reason for this is a key form of risk management – we are seeking to preserve our investors' capital and therefore we only want to place significant positions when our confidence levels are high. This requires both macro and motion to be consistent and supportive.

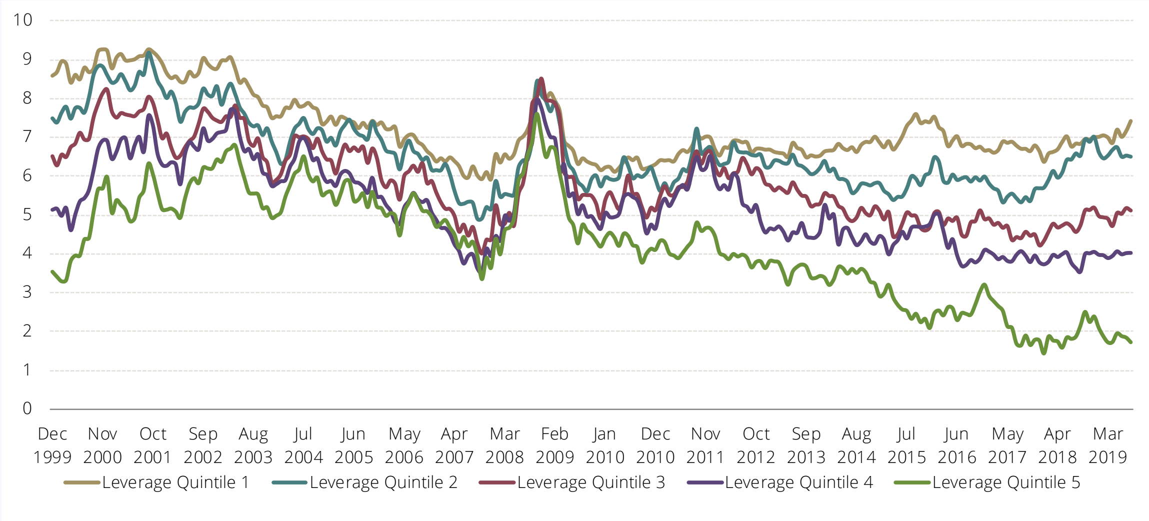
But assuming motion does confirm as we expect, then we believe we will end up doing the following in the coming months:

- Increasing our exposure to value globally within equities;
- Increasing our allocation to EM, particularly to EM value, including in our relative value positions;
- Progressively increasing our allocation to commodity exposed assets, including equities, rates and currencies where appropriate;
- Taking certain option positions to enhance return in particularly attractive stock and market situations;
- Cutting our government bond position (in DM anyway) to zero, and likely cutting our IG credit for similar reasons;
- There should also be some interesting opportunities in certain sectors within the REIT market if we can access them in scale – i.e. those that have not been bid up by lower bond yields (as some sectors have to significant overvaluation levels).

Investors often ask us what our attitude is to going short in these sorts of situations. The answer is we have nothing fundamental against going short, but equally there is nothing magic about it. It needs to stack up against long positions. Right now, we can see the logic for being short governments, and the Sharpe on this is probably ok to decent. But there are plenty of other long positions that look very compelling, where we would be surprised if the shorts in governments space are attractive enough to compete. Were it not for these alternatives, we suspect the shorts might work their way in.

There is one chart we want to show because it makes a subtle point – a case for value while at the same time why looking at EM as an asset class is too broad brush. The chart on the following page shows the difference in the market implied discount rate for leverage quintiles within EM – the quintile 1 is the most leveraged, 5 the least. The chart shows a trend that is seen broadly around the world – less leveraged stocks have gone up (MIDR has fallen) because of falling bond yields. More leveraged companies haven't. This has actually been a key story in EM.

MARKET IMPLIED DISCOUNT RATE – EMERGING MARKETS



Source: CS HOLT.

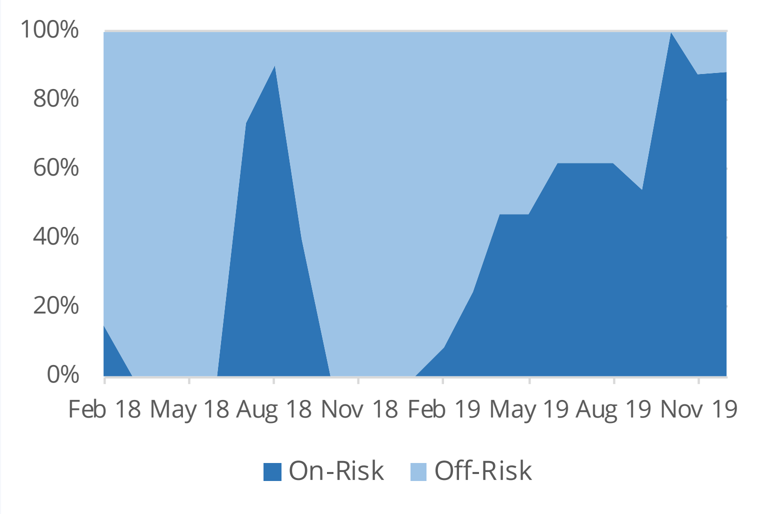
The difference between quintiles 1 and 5 is the highest it has ever been, including the top of the tech boom. It is pretty high everywhere else, but not this extreme. This is the reason we like EM value but not necessarily EM as a whole. We think the year should play out something like this. Bond yields rise, putting pressure on quintile 1. Credit conditions should improve, and as economic conditions strengthen, the worst credits should improve significantly and this should make quintile 5 particularly attractive. The result of this is a contraction of the gap between the two quintiles, favouring 5 in an environment where equities are supported in general. This is consistent with the view of value as many of these cheaper companies are cheaper simply because of leverage.

We're expecting this to be a good year, with lots of opportunities to go for. But the main message is this should be a year of economic improvement, notwithstanding the inevitable continuation of political challenges. The latter will doubtless dominate news, but the former we believe will dominate returns.

Mike Faulkner and Joe Andrews
Portfolio Managers
January 2020

Risk indicator

This chart shows a proprietary indicator which is the primary driver of the fund's on/off risk allocations over the last 12 months.



Source: River and Mercantile Investments Limited.

Gross allocation by asset class

This table shows the fund's asset allocation by notional exposure.

Asset Class	Notional Exposure
Bonds and Rates	16.7%
Commodities	0.0%
Credit	26.9%
Equity	33.6%
Real Estate	0.0%
Cash and Equivalents	97.3%

Source: River and Mercantile Investments Limited.

Top 10 positions

This table shows the fund's ten largest positions by exposure.

	Exposure
United States Treasury Bill 0 03/19/20	13.6%
United States Treasury Bill 0 01/30/20	13.3%
United States Treasury Bill 0 02/13/20	13.3%
United States Treasury Bill 0 02/27/20	13.3%
United States Treasury Bill 0 03/26/20	13.3%
United States Treasury Bill 0 04/23/2020	13.3%
EURO STOXX 50 Mar20	9.9%
S&P500 EMINI FUT Mar20	9.9%
NIKKEI 225 (OSE) Mar20	8.5%
TRS-IYD1119 TRS (UK Investment Grade)	5.7%

Source: River and Mercantile Investments Limited.

RIVER AND MERCANTILE
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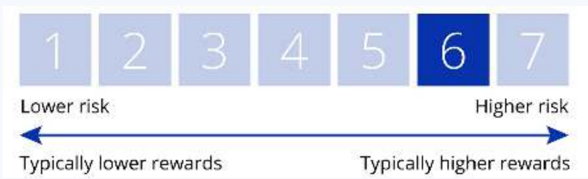
Fund information

Portfolio managers	Mike Faulkner and Joe Andrews
Management Co.	Carne Global Fund Managers (Ireland) Limited
Investment manager	River and Mercantile Investments Limited
Depositary	BNY Mellon Trust Company (Ireland) Limited
Fund launch date	25/01/2018
Fund base currency	USD
Domicile	Ireland
Fund type	UCITS
Entry charge	Nil
Exit charge	Nil
Ongoing charges	1.45% (1.0% AMC)
Performance fee	15% (of outperformance)
Dealing frequency	Weekly, Wednesday
Dealing cut-off time	Wednesday 4.30pm (Irish time)
Valuation	Wednesday 4.00pm (New York time)
Settlement	T+4
Minimum investment	USD 500k equivalent

Share classes

USD	Class A (Accumulation/Distribution), Class Y (Accumulation)
GBP	Class B (Accumulation/Distribution), Class Z (Accumulation)
JPY	Class C (Accumulation/Distribution), Class W (Accumulation)
CHF	Class U (Accumulation)
AUD	Class V (Distribution)
EUR	Class X (Accumulation)

Synthetic Risk & Reward Indicator (SRRI)



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Carne Global Fund Managers (Ireland) Limited manage the ICAV as UCITS management company and have delegated the discretionary investment management and distribution of the ICAV and the Fund to River and Mercantile Investments Limited. River and Mercantile Investments Limited is authorised and regulated in the United Kingdom by the Financial Conduct Authority (Firm Reference No. 195028; registered in England and Wales No. 3359127).

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