

# ES River and Mercantile UK RECOVERY FUND

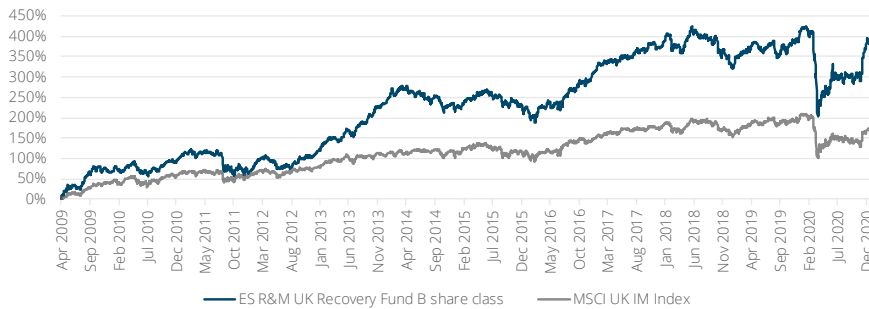
CLASS B GBP (Income)

## PAST PERFORMANCE

The chart and tables below show the performance of the fund's GBP B (Inc) share class since the launch of the share class on 1 April 2009.

Source: River and Mercantile Asset Management LLP. Fund performance is calculated using midday published prices. Benchmark performance is calculated using close of business mid-market prices. Past performance is not a reliable guide to future results.

## PERFORMANCE SINCE INCEPTION



## CUMULATIVE PERFORMANCE

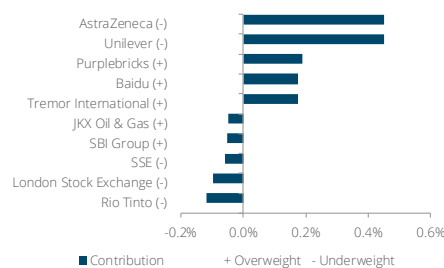
	1 Month %	3 Months %	1 Year %	3 Years %	5 Years %	10 years %	Since inception %
B share class (Inc)	6.1	27.1	-3.8	2.0	53.2	141.2	399.1
MSCI UK IM Index	3.7	12.2	-11.8	-5.7	25.1	64.8	169.4

## DISCRETE 12 MONTH PERFORMANCE

	12 months to 31/12/2016	12 months to 31/12/2017	12 months to 31/12/2018	12 months to 31/12/2019	12 months to 31/12/2020
B share class (Inc)	28.1%	17.3%	-12.8%	21.5%	-3.8%
MSCI UK IM index	17.4%	13.0%	-9.8%	18.4%	-11.8%

## TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS

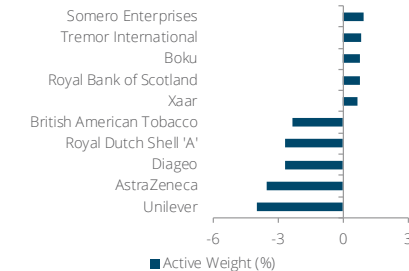
The best and worst contributors to the portfolio's performance relative to the benchmark



Source: River and Mercantile Asset Management LLP

## TOP 5 OVERWEIGHTS & UNDERWEIGHTS

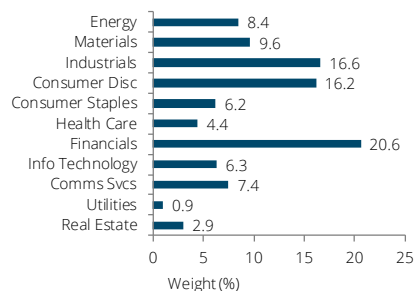
The securities in which the portfolio weight differs most from that of the benchmark



Source: River and Mercantile Asset Management LLP

## SECTOR WEIGHTS

Portfolio weightings within specific industrial sectors.



Source: River and Mercantile Asset Management LLP

## TOP 10 HOLDINGS

The ten largest positions by weight held in the portfolio.

Company	Weight (%)
Royal Dutch Shell 'B'	2.0
Prudential	2.0
HSBC Holdings	2.0
Lloyds Bank	2.0
BP	1.9
Unilever	1.8
Barclays	1.7
Anglo American	1.7
Rio Tinto	1.6
BHP	1.5

Source: River and Mercantile Asset Management LLP

RIVER AND MERCANTILE

## INVESTMENT OBJECTIVE

To grow the value of your investment (known as "capital growth") in excess of the MSCI United Kingdom Investable Market Index (IMI) net total return ("the Benchmark") over a rolling 5-year period, after the deduction of all fees.

## PORTFOLIO MANAGER

Hugh Sergeant

## PORTFOLIO & RISK CHARACTERISTICS

Number of holdings	290
Fund volatility	16.1%
Benchmark volatility	14.1%
Beta	1.08
Active money	61.9%

## KEY FACTS

Fund launch date	17/07/2008
Share class launch date	01/04/2009
Benchmark	MSCI UK Investable Markets index
IA sector	UK All Companies
Total fund size	£172.3m
Domicile	UK
Fund type	UCITS
SEDOL	B614J05
ISIN	GB00B614J053
Bloomberg	RMUKEBB
Distribution type	Income

## FEES & CHARGES

Initial charge	Up to 5.25%
AMC	1.00%
Ongoing charge (including AMC)	1.14%

## DEALING INFORMATION

Dealing frequency	Daily
Dealing cut-off time	12pm (UK)
Valuation point	12pm (UK)
Settlement	T+4
Minimum investment	£1000

## SYNTHETIC RISK & REWARD INDICATOR (SRRI)



## CONTACT DETAILS

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### MARKET CAPITALISATION

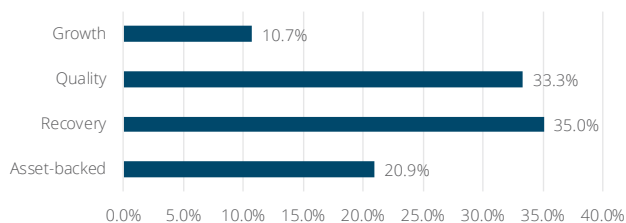
Comparison of portfolio and benchmark weightings across a range of sizes based on company value.

		Fund	Benchmark	Active
Mega Cap	£20bn +	30.0%	56.9%	-26.9%
Large Cap	£4bn - £20bn	15.0%	27.6%	-12.6%
Mid Cap	£2bn - £4bn	8.1%	7.7%	0.4%
Small Cap	£100m - £2bn	40.1%	7.8%	32.3%
Micro Cap	£0m - £100m	6.3%	0.0%	6.3%

Source: River and Mercantile Asset Management LLP

### CATEGORIES OF POTENTIAL

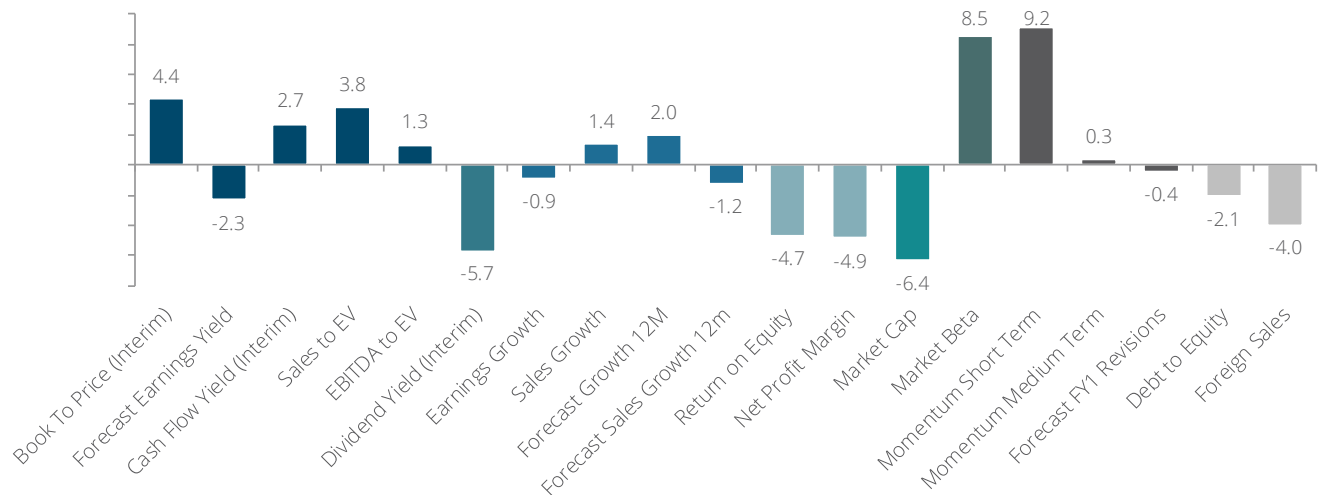
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.



Source: River and Mercantile Asset Management LLP

### PORTFOLIO STYLE SKYLINE

This chart shows the Style Tilts of the portfolio against the benchmark as calculated by StyleAnalytics.



Source: StyleAnalytics

### FUND RATINGS



### OTHER INFORMATION

Authorised Corporate Director: Equity Trustees Fund Services Limited  
 Investment manager: River and Mercantile Asset Management LLP  
 Depository: The Bank of New York Mellon (International) Limited

This fund was renamed on 1 July 2018. It was previously known as the R&M UK Equity Long Term Recovery Fund.

## MANAGER'S REVIEW

Well done getting through 2020 and let's hope in a year's time we will be able to look back at the last year as one where most aspects of our lives returned to normal.

As this is the end of the quarter and the year, this will be a short monthly update with more information available in our quarterly report, available shortly.

### Investment Background

December's robust performance (MSCI ACWI +4.7% total return) rounded off a strong final quarter of 2020 for global equity markets (MSCI ACWI +14.8% total return). Other risk assets, such as industrial commodities, continued to rally. The US dollar continued its decline (DXY index -2.1%). Both sterling (in trade-weighted terms) and UK equities (in US dollar terms) outperformed as expectations rose around a UK-EU trade deal, which was subsequently signed on Christmas Eve (after quite a lot of last-minute angst!)

### Strategy Update

#### Performance

The Fund returned 6.1%<sup>1</sup> in December, versus 3.7% by its comparator benchmark, the MSCI United Kingdom Investable Markets index<sup>2</sup>. This concluded a very strong rally by the fund since the dark days during the peak of the first lockdown market panic. We stuck to our approach, looked for new PVT anomalies as they became available in the sharp sell-off and returns have been robust since.

Key points and activity:

- UK equities are very cheap and with the trade agreement in place there is now every reason to own them.
- It is likely that the UK Government will now put in place post-Brexit policies that support a faster level of trend growth than reflected in a current, very cautious consensus.
- The UK economy will recover robustly over the next 2 years.
- Likewise, UK profits are currently very depressed and will show a sharp recovery from here.
- Interest rate expectations in the UK are very depressed at the moment but as our economy participates in the global reflationary trade (economic recovery combined with, money supply growth, bank lending, consumers spending their forced saving, and large fiscal deficits continuing partly to fund significant post Brexit investments in our infrastructure and centres of excellence) so will interest rate expectations move up.

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

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

#### Activity

We continue to position the portfolio for UK domestic economic recovery and global reflation.

Purchases included adding to **Whitbread**, owner of the market-leading UK budget hotel brand Premier Inn, which offers attractive operational gearing (i.e. the profit that will drop through from each incremental £ of sales) into a recovery in travel and leisure spend in 2021. There are two further areas of interest. Firstly (and primarily), we see it as a market share gainer, both from smaller independents and primary competitor Travelodge, which have either come out of the market or not had the balance sheet to re-invest. Secondly, the asset-backing that the business has via its majority freehold estate gives it the opportunity to release some cash via sale and leaseback of assets, which may be more favourable today given the shifting balance of power between lessors and lessees. This is an angle that a strategic buyer – financial or trade – would almost certainly explore.

The most significant sales during the period (excluding cash flows) were M&A targets, where we took profits in **Signature Aviation**, **Telit** and **Orange Belgium**.

#### Outlook

Price action across asset classes reflects growing confidence towards a more reflationary global economic environment as 2021 progresses. This trend had started to develop since the summer, but the US presidential election result (reinforced by the Democrats now controlling the Senate) and positive COVID-19 vaccine news provided support to the narrative and fuel to the fire of 'rotation'. The extraordinary speed of vaccine development and equally remarkable efficacy results are notable in terms of building incremental conviction in the consumer leg to the pro-cyclical positioning that we had taken in summer around a recovery in the industrial economy.

While sterling and UK equities had already begun to reflect increasing confidence that a trade deal would be reached between the UK and EU, confirmation of an agreement should bring the low valuations in UK equities at a market aggregate level plus wide dispersion of valuations intra-market further into investor consciousness. These valuation gaps have only just started to close and historically such conditions have implied a higher probability of attractive future returns, as well as a healthy environment for active managers employing valuation discipline to add alpha.

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