

ES River and Mercantile UK DYNAMIC EQUITY FUND

CLASS B GBP (Accumulation)

PAST PERFORMANCE

The chart and tables below show the performance of the fund's GBP B (Acc) share class since the launch of the share class on 21 November 2012.

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 %	Since inception %
B share class (Acc)	4.2	14.3	-4.5	-2.2	35.3	102.5
MSCI UK IM Index	3.7	12.2	-11.8	-5.7	25.1	56.2

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 (Acc)	16.8%	18.5%	-16.5%	22.6%	-4.5%
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

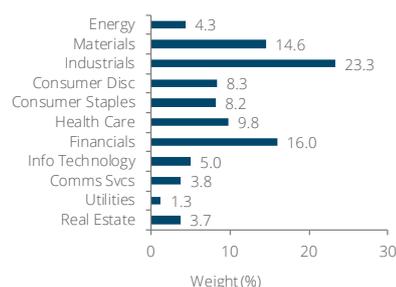
The securities in which the portfolio weight differs most from that of the benchmark



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.

	Weight (%)
Unilever	4.2
Lancashire Holdings	3.0
Tesco	2.9
Prudential	2.9
Electrocomponents	2.9
Anglo American	2.8
Vesuvius	2.6
Barclays	2.6
IMI	2.5
Royal Dutch Shell 'B'	2.5

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

William Lough

PORTFOLIO & RISK CHARACTERISTICS

Number of Holdings	54
Fund Volatility	14.8%
Benchmark Volatility	14.1%
Beta	0.99
Active Money	76.2%

KEY FACTS

Fund launch date	22/03/2007
Share class launch date	21/11/2012
Benchmark	MSCI UK Investable Markets Index
IA sector	UK All Companies
Total fund size	£59.5m
Domicile	UK
Fund type	UCITS
SEDOL	B7H1R58
ISIN	GB00B7H1R583
Bloomberg	RIVMERB
Distribution type	Accumulation

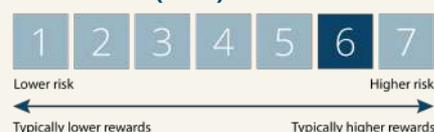
FEES & CHARGES

Initial charge	Up to 5.25%
AMC	0.75%
Ongoing charge (including AMC)	0.93%

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

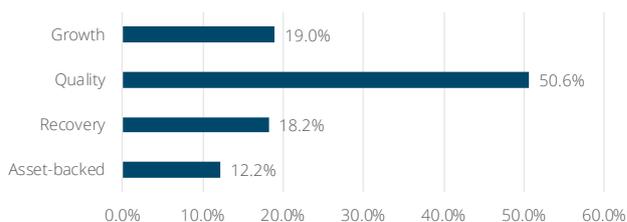
Comparison of portfolio and benchmark weightings across a range of sizes based on company value.

		Fund	Benchmark	Active
Mega Cap	£20bn +	33.2%	56.9%	-23.8%
Large Cap	£4bn - £20bn	17.8%	27.6%	-9.8%
Mid Cap	£2bn - £4bn	10.6%	7.7%	2.9%
Small Cap	£100m - £2bn	36.7%	7.8%	28.9%
Micro Cap	£0m - £100m	0.0%	0.0%	0.0%

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, excludes cash.

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 January 2016 and was previously known as the R&M UK Equity Unconstrained Fund.

MANAGER'S REVIEW

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.

Strategy Update

Performance

The fund returned 4.2%¹ in December, versus 3.7% by its comparator benchmark, the MSCI United Kingdom Investable Markets index². The fund therefore returned 14.3% for the 4th quarter and -4.5% for the calendar year of 2020 versus the benchmark's 12.2% and -11.8% respectively. Over the longer term, the strategy has returned 9.1% per annum since inception (of the B share class in 2012) versus a benchmark return of 5.7% p.a..

The holding that contributed most was **Cairn Energy** (+0.4%), which rose 31% on news that they had been awarded ~\$1.4 billion in a long-running tax dispute against the Indian government. This figure was roughly the market cap prior to the announcement, so investors are still taking a cautious view about the amount of cash that eventually comes in. **Polypipe** (+0.2%) had a positive profit warning and benefitted from improved sentiment towards domestically facing UK companies.

French pharmaceutical **Sanofi** (-0.2%) was a victim of a broader rotation out of the sector. It has a lot of self-help opportunities to drive higher return on capital and an attractive free cash flow yield. **Lancashire Holdings** (-0.2%) was weak for no clear reason. We chose to re-allocate ~0.5% from Lancashire to new holding Conduit (see below), thereby increasing the overall exposure to what is now a well-established rate hardening cycle.

Activity

We participated in the IPO of **Conduit Holdings** in December. We view this as an exciting opportunity to benefit from price inflation in the global reinsurance market across a broad suite of business lines, via a purpose-built vehicle with strong management credentials and no legacy business acting as a drag on growth and returns through a requirement to rebuild provisions. In other words, the highly regarded management and best-in-class

underwriting team they assemble will have total flexibility to allocate capital to the highest return opportunities in the best environment for writing new business since post-9/11. 'Getting in on the ground floor' via the IPO allowed us to buy our stake at 1x book value, compared to trading multiples of 1.5-2x for other UK-listed specialty insurers and reinsurers (with sector transaction multiples historically ~1.5-1.7x on average), in return for the risks associated with building up a book of business and administrative platform from scratch.

I exited our small position in accounting software provider **Sage Group**, a recent purchase. A key risk that we highlighted in our original research – a sequential slowdown in the annual recurring revenue (ARR) growth rate – came to pass in a more negative manner than we had anticipated and we see a real risk that overall group organic sales growth falls to the lower end of the guidance range (below consensus), particularly if churn rates in smaller corporate customers increase. With margin guidance also reduced (for a second time) in the short-term, there is now an opportunity cost to having capital tied up in Sage as it will take more time to rebuild belief that the additional investment can re-accelerate growth and drive margins back to prior levels.

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 and very positive COVID-19 vaccine news (both in November) 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 the 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.

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

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

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