28 FEBRUARY 2023

ES River and Mercantile GLOBAL ALPHA FUND

CLASS B GBP (Accumulation)

RIVER AND MERCANTILE

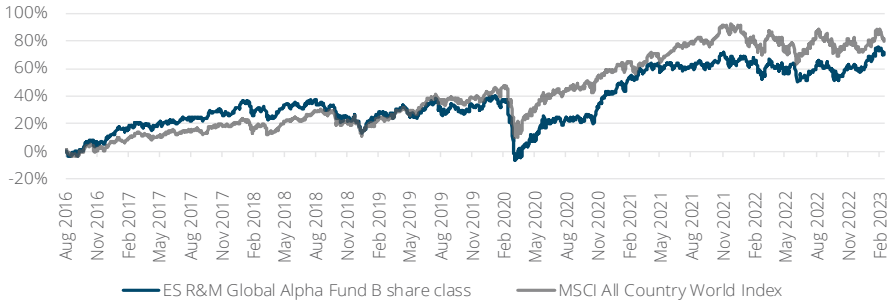
PAST PERFORMANCE

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 12 August 2016.

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

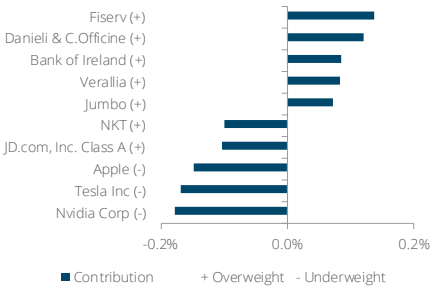
	1 month %	3 months %	1 year %	3 years %	5 years %	Since inception %
B share class (Acc)	0.3	4.8	6.4	40.1	29.0	69.6
Benchmark	-1.2	-1.6	1.7	35.9	51.0	79.9

DISCRETE 12 MONTH PERFORMANCE

	12 months to 28/02/2019	12 months to 28/02/2020	12 months to 28/02/2021	12 months to 28/02/2022	12 months to 28/02/2023
B share class (Acc)	-4.1%	-4.0%	25.1%	5.2%	6.4%
Benchmark	2.7%	8.2%	19.0%	12.3%	1.7%

TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS

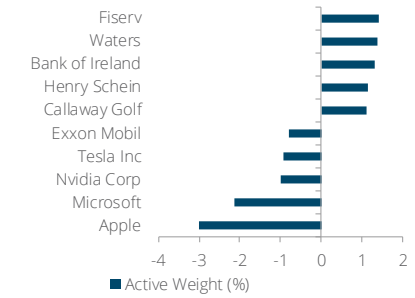
The best and worst contributors to the portfolio's performance relative to the benchmark.



Source: River and Mercantile Asset Management LLP

TOP 5 OVERWEIGHTS & UNDERWEIGHTS

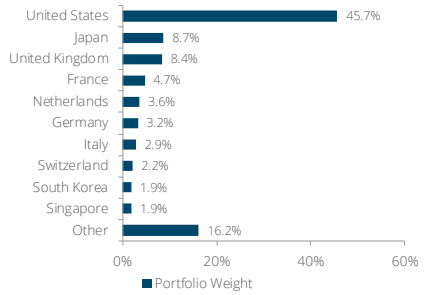
The securities in which the portfolio weight differs most from that of the benchmark.



Source: River and Mercantile Asset Management LLP

TOP 10 COUNTRY WEIGHTS

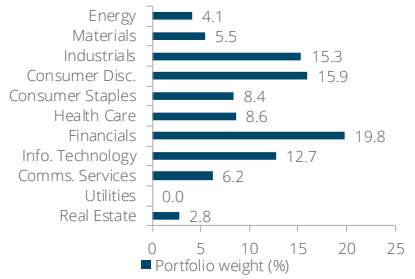
The portfolio's ten largest country holdings by total weight.



Source: River and Mercantile Asset Management LLP

SECTOR WEIGHTS

Portfolio weightings within specific industrial sectors.



Source: River and Mercantile Asset Management LLP

INVESTMENT OBJECTIVE

To grow the value of your investment (known as "capital growth") in excess of the MSCI All Country World Index (ACWI) net total return (the "Benchmark") over a rolling 5-year period, after the deduction of fees.

PORTFOLIO MANAGERS

Hugh Sergeant & William Lough

PORTFOLIO & RISK CHARACTERISTICS

Number of holdings	187
Fund Volatility	14.9%
Benchmark Volatility	13.9%
Beta	1.03
Tracking error	3.81
Active Money	83.7%

KEY FACTS

Fund launch date	12/08/2016
Share class launch date	12/08/2016
Benchmark	MSCI All Country World index
IA sector	Global
Total fund size	£159.1m
Domicile	UK
Fund type	UK UCITS
SEDOL	BZB1R49
ISIN	GB00BZB1R490
Bloomberg	RMGHABA
Distribution type	Accumulation

FEES & CHARGES

Initial charge	Up to 5.25%
AMC	0.75%
Ongoing charge (including AMC)	0.84%

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

Telephone 0345 603 3618

Email enquiries@riverandmercantile.com

TOP 10 HOLDINGS

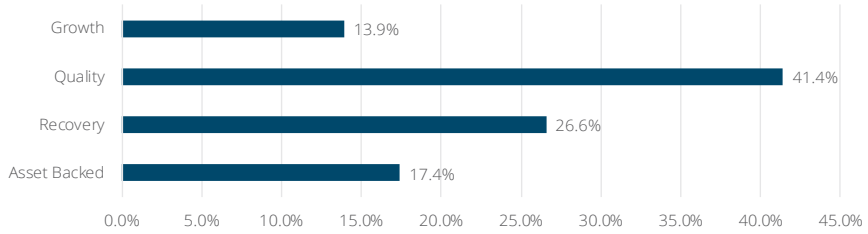
The ten largest positions by weight held in the portfolio.

	Weight (%)
Fiserv	1.5
Waters	1.4
Bank of Ireland	1.3
Booking Holdings	1.2
Sony Corp	1.2
Henry Schein	1.2
Baker Hughes	1.2
Callaway Golf	1.1
Oracle	1.1
DBS Holdings	1.1

Source: River and Mercantile Asset Management LLP

CATEGORIES OF POTENTIAL

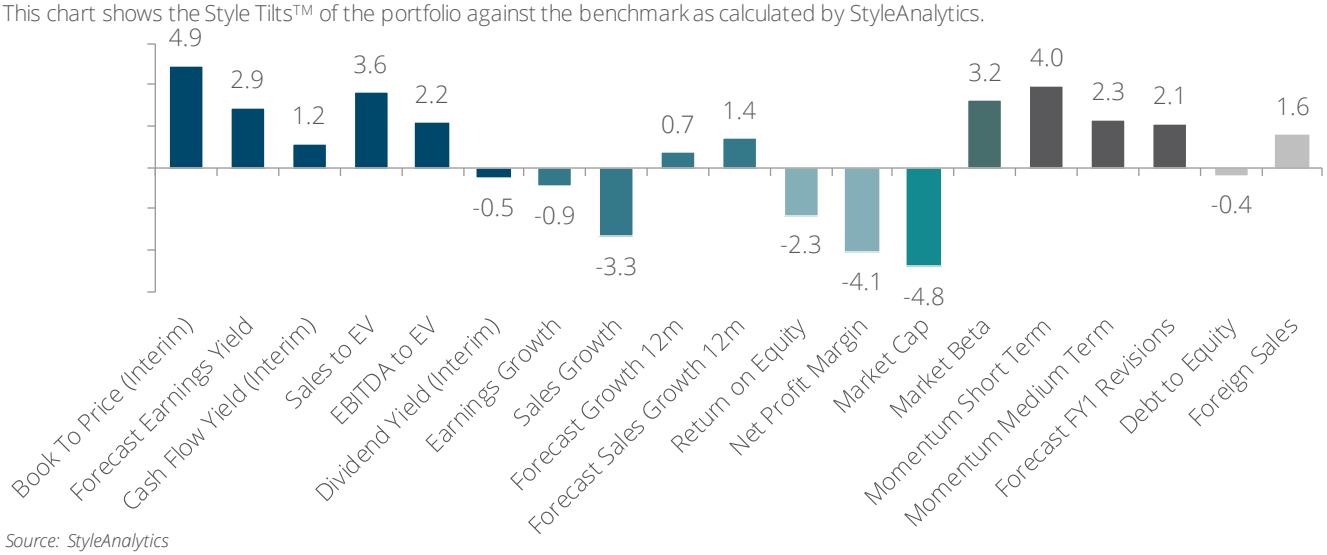
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.



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

OTHER INFORMATION

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

This fund was previously called the ES River and Mercantile Global High Alpha Fund.

MANAGERS' REVIEW

Investment background

In February equity markets gave back some of January's gains (MSCI ACWI -2.9% total return in USD). Good news became bad news, in a sense – demand is now perceived as too strong because this will make it harder to bring down inflation, potentially requiring more restrictive interest rates than financial markets had been pricing in. Strength of demand is particularly evident from the US consumer, but you could make an argument that consumer spending has surprised on the upside even in the countries perceived as most challenged by a cost-of-living crisis, such as the UK. If this sounds contrary to what we wrote last month, it should! The current backdrop has echoes of the famous Mankoff (New Yorker Magazine) cartoon from 1981: "On Wall Street today, news of lower interest rates sent the stock market up, but then the expectation that these rates would be inflationary sent the stock market down, until the realization (sic) that lower rates might stimulate the sluggish economy pushed the market up, before it ultimately went down on fears that an overheated economy would lead to a reimposition of higher interest rates."

Strategy update

Performance

The fund returned +0.3%[1] in February versus -1.2%[2] by its comparator benchmark, the MSCI ACWI index (all in GBP).

Fiserv (+10% in GBP) performed well following 2022 numbers and 2023 guidance which were above analyst expectations. As we outlined in our last quarterly report, Fiserv has seen a meaningful step up in its organic growth rates and expects to grow 7-9% in 2023, though this appears conservative when set against the current +12% run-rate. Earnings per share growth is expected to be 12-14%, supported by material share buybacks from strong free cash generation. Steel equipment provider **Danieli** (+11%) was a leading contributor again. It continues to win large orders, adding to its already material order book, as the industry spends big on decarbonisation capex. The only material negative contributors to relative returns were not owning **NVIDIA** and **Tesla**. and having an underweight position in **Apple**.

Activity

We built a new position in three European industrial companies: **Aalberts**, **Wartsila** and **Knorr-Bremse**.

Aalberts's 9x EV/EBIT multiple compares to the current sector average of 12.5x, which is also Aalberts's own long-term average. An entry point at this valuation suggests a wide margin of safety, as the current price appears not to reward the company for a successful transition to a more focused group with attractive end market growth and higher margins than historically. Over half of its sales are geared towards building efficiency where its products can make 15-20% energy savings or save up to 1,200 litres of water per household per year. The company has guided to 4-6% organic growth per annum over the medium-term, with each incremental €1 of revenue translating to ~€0.25 or more of operating profit. Based on the company's own expectations for market share gains and our own estimates for long-term market growth, we believe these are conservative figures, yet analyst forecasts sit at the bottom end of the guidance range. In the past, Aalberts has had a higher 'dropthrough' of revenue to profits – closer to 30% - so if it is growing at the higher end of the stated range (or above) it's reasonable to suggest that its guidance on margins is also conservative.

Wartsila and Knorr-Bremse share the relatively rare feature in the current market of having close to trough margins as well as close to trough EV/Sales multiples. Wartsila has useful structural tailwinds for demand over the long term. Its efficient engines will help decarbonise marine transport, with a decent order cycle likely as fuel conversions come in over the next decade, and its battery business (systems integration) will be a major beneficiary of government stimulus behind green energy, such as the US Inflation Reduction Act and its European equivalent. This revenue growth, alongside the lagged effect of pricing to recover cost inflation and some one-off costs in 2022 dropping out this year should see operating margins recover from last year's 4% to double-digit levels in time (the company targets 12%). The shares currently trade on ~10x recovered earnings compared to a long-run average of ~15x so we don't see this recovery as being priced into the shares yet. Knorr-Bremse has strong market positions predominantly in brake systems for trains and heavy-duty trucks. These are attractive due to the high level of recurring and high-margin service revenues that come with the equipment sale. Some market concern around market share losses in China as well as a depressed level of truck revenues there following very elevated volumes in 2021 has created an opportunity. The new CEO has a clear mandate to improve profitability which, if executed, would likely lead to a higher valuation.

These were funded by exiting **Incitec Pivot**, where the recovery investment case has played out, plus **Dropbox** and **Aena**, where we had reduced conviction in the investment case.

Outlook

Investors should be under no illusions that we are in a different market regime to 2010-20, with a higher resting heart-rate for interest rates (and by extension the cost of capital) and more volatility around inflation. Valuation dispersion – a measure of the bang for your buck you get for buying cheaper stocks over more expensive – is at high levels across the world, which is an attractive environment in which to be a valuation-focused stock picker. The fundamentals of last cycle's darlings, particularly some large constituents of equity benchmarks (and by extension many passive portfolios), have weakened while many cheaper stocks and sectors, such as banks and energy, are performing better. Certain equities are much further through the process of adjustment to the intermediate outlook than others, allowing scope for stock picking alpha.

We own companies with attractive and improving return on capital, double-digit long-term growth and low financial gearing, still available for 12x earnings in aggregate. We think this combination is surprisingly rare in an investment landscape that's overly obsessed by polarised factors. Nearly all our portfolio holdings have now reported on 2022 and provided initial guidance for 2023. Barring one notable exception (NKT), these have contained few nasty surprises and many more positive ones. The overall takeaway is one of support for our longer-term investment cases. The average company in the portfolio delivered 20% earnings growth in 2022. We don't expect a repeat of this in 2023 but do expect an above market rate of growth from the mix of structural growth end markets and self-help or cyclical recovery opportunities that we own.

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Hugh Sergeant & William Lough
Portfolio Managers
March 2023

[1]*B share class (GBP), mid-day to mid-day pricing.*
[2]*Close-of-business to close-of-business pricing.*