30 APRIL 2021

ES River and Mercantile UK RECOVERY FUND

CLASS B GBP (Income)

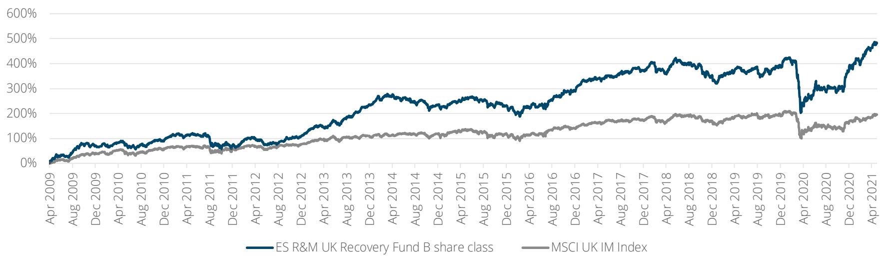
PAST PERFORMANCE

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

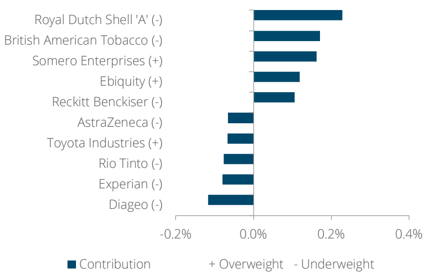
	1 Month %	3 Months %	1 Year %	3 Years %	5 Years %	10 years %	Since inception %
B share class (Inc)	3.6	17.3	53.6	17.3	72.5	165.4	482.3
MSCI UK IM Index	4.4	10.8	24.3	4.5	36.0	73.7	196.2

DISCRETE 12 MONTH PERFORMANCE

	12 months to 30/04/2017	12 months to 30/04/2018	12 months to 30/04/2019	12 months to 30/04/2020	12 months to 30/04/2021
B share class (Inc)	30.5%	12.7%	-2.5%	-21.6%	53.6%
MSCI UK IM index	20.1%	8.4%	2.5%	-18.0%	24.3%

TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS

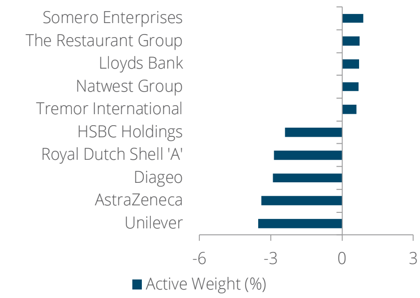
The best and worst contributors to the portfolio's performance relative to the benchmark



Source: River and Mercantile Asset Management LLP

TOP 5 OVERWEIGHTS & UNDERWEIGHTS

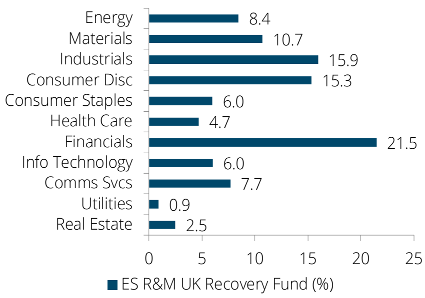
The securities in which the portfolio weight differs most from that of the benchmark



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 (%)
BP	2.4
Lloyds Bank	2.2
Prudential	2.1
Anglo American	2.0
Royal Dutch Shell 'B'	2.0
HSBC Holdings	1.9
Barclays	1.8
Unilever	1.7
Rio Tinto	1.5
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	303
Fund volatility	16.2%
Benchmark volatility	14.3%
Beta	1.08
Active money	60.8%

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	£201.8m
Domicile	UK
Fund type	UK 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

Telephone 0345 603 3618
Email enquiries@riverandmercantile.com

MARKET CAPITALISATION

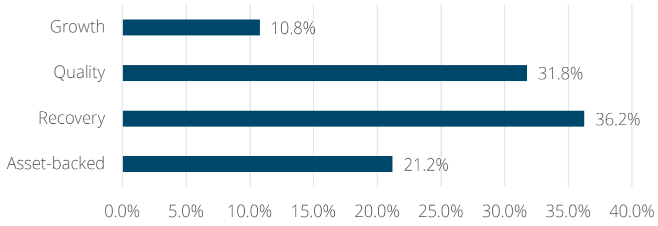
Comparison of portfolio and benchmark weightings across a range of sizes based on company value.

		Fund	Benchmark	Active
Mega Cap	£20bn +	30.0%	57.7%	-27.7%
Large Cap	£4bn - £20bn	16.8%	27.8%	-11.1%
Mid Cap	£2bn - £4bn	9.0%	7.7%	1.3%
Small Cap	£100m - £2bn	38.3%	6.8%	31.5%
Micro Cap	£0m - £100m	5.6%	0.0%	5.6%

Source: River and Mercantile Asset Management LLP

CATEGORIES OF POTENTIAL

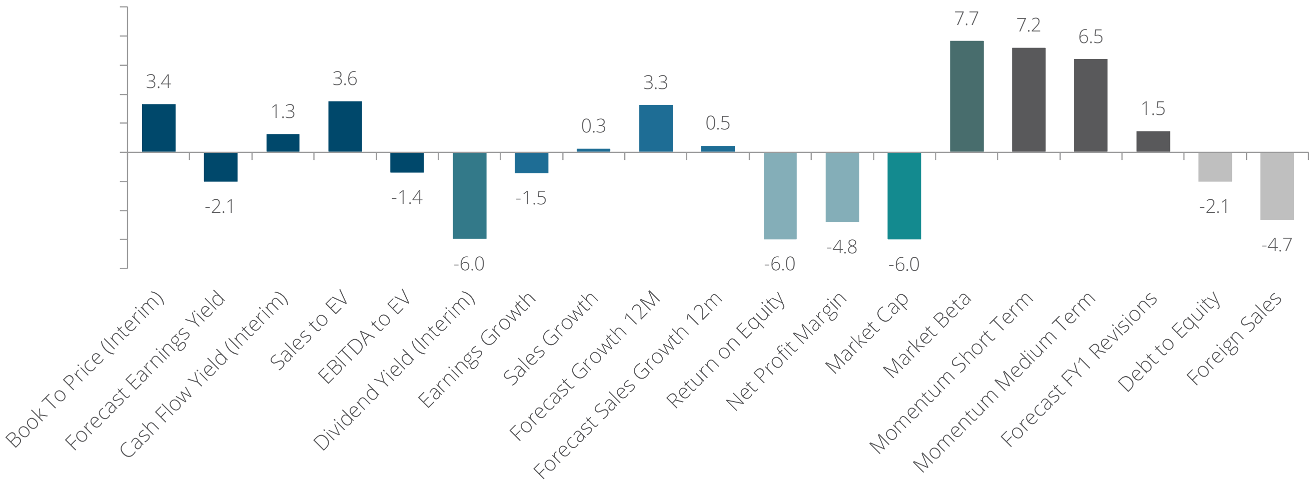
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.



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

ELITE PROVIDER™ rated for equities by FundCalibre.com 2021

SQUARE MILE AA

ELITE RATED by FundCalibre.com

RSMR RATED FUND

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

MANAGER'S REVIEW

Investment background

Global equity markets continued their march higher in April (MSCI ACWI +4.4% total return in USD). Some better performing segments of the market year-to-date, particularly value factor indices, lagged in relative terms. Equity performance dynamics took their lead from bond markets, where the US 10-year treasury yield retrenched 11 basis points from recent highs. Commodities prices moved sharply higher again after consolidating in March (Brent oil +6% and copper +12%). These are amongst several input prices which are showing sharp year-on-year growth providing an inflationary environment in the near-term that central bankers continue to describe as 'transitory'. This is a an important underpin for the maintenance of ultra-loose monetary policy, with short rates nailed close to zero.

Strategy update

Performance

The fund returned +3.6%[1] in April versus +4.4% by its comparator benchmark, the MSCI United Kingdom Investable Markets Index[2]. The value factor acted as a drag on performance during the month; this key factor and several of the strongly performing stocks of the last year needing a period of consolidation. It should be noted that the COB returns for the fund were actually modestly ahead of the benchmark (above we give the mid-day returns for the fund).

Positive contributors included an underweight position in Royal Dutch Shell, with energy stocks quite weak and Somero responding strongly to a robust market for US construction and a positive profits warning. Negative contributors focused on underweight positions in some consumer staples (Diageo and AstraZeneca) as they continued to rally.

IMI was also a material positive contributor. It announced Q1 results which were significantly ahead of expectations and led to management upgrading its guidance for the year. More importantly, in terms of longer-term value, group sustainable margin guidance was increased to 18-20% from ~18% previously and the Hydronic division looks set to become a more substantial contributor to group organic growth, having previously been a drag

Activity

The current pause in the performance of Value and Recovery stocks is providing an opportunity to top-up exposure. We are very conscious that the reflation trade is likely at the foothills of its cycle so we are actually increasing our weighting to the key beneficiaries, adding banks, energy (where we need to balance S-PVT considerations with a recognition that, alongside banks it is the cheapest inflation hedge available, and has hugely lagged the mining stocks) and also (almost for the first time in my career) building a more meaningful exposure to precious metal stocks (which have also lagged other reflation plays). Purchases included Royal Dutch Shell, Polymetal, Fresnillo and Lloyds.

The UK domestic economy looks very well set for at least the next 24 months; this is almost consensus now but is not at all reflected in the valuations of domestic recovery stocks. Some have been left behind, like Superdry and Ted Baker (though finally starting to rally, as I write) and we have been adding as they start to evidence improved execution of their recovery strategies. In this left behind camp I would include both Travis Perkins and its spin-off, Wickes. They are both geared plays on the pick-up in the UK consumer and investment in the housing stock, and going their separate ways should be a win-win, Travis as its return profile will significantly improve and Wickes because it can drive stronger growth as a standalone business, rather than part of a larger 'sorry we own this Wickes business' conglomerate. We have added to both

Outlook

I am starting to think that the biggest risk to the portfolio is taking profits in the reflation and value trade too early. The reason I say that is that if this is really it (a paradigm shift, from deflation to reflation) then we are just in the foothills, and do I, value manager (with ten years of pain under my belt) want to jump-off right at the beginning of a more positive cycle? No, I do not, and please clients tell me not to!

And why might we be seeing a paradigm shift? Because no one really believes it, yet. Just look at Government Bond yields and Nasdaq, still embracing mega deflation and long duration. And then what is the economic and political reality? It is Biden, Bojo, and Draghi – we have to make our economies grow faster in nominal GDP terms because we have to ensure that the majority benefit from the post-Covid crisis recovery ('levelling-up'), they want something very different to the GFC recovery era. And very different means big stimulus, very big investment (in infrastructure, the green economy and digital) and yes, they want some inflation so that wages grow at a decent clip. And Central Banks show little sign of having a different agenda.

The great thing is that many inflation hedges still trade reasonably cheap and are towards the beginning of their cycle – value, recovery, energy, precious metals, interest rate sensitives such as banks, dividend yielders, short government bonds. I think the direction of travel for the portfolios I run should be more of this rather than less.

Hugh Sergeant
Portfolio Manager
May 2021

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