

# ES River and Mercantile UK DYNAMIC EQUITY FUND

CLASS B GBP (Accumulation)

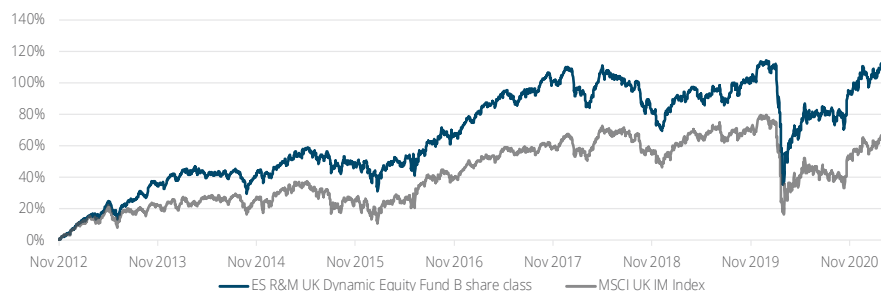
## PAST PERFORMANCE

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

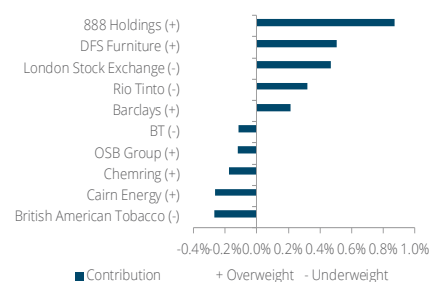
	1 Month %	3 Months %	1 Year %	3 Years %	5 Years %	Since inception %
B share class (Acc)	5.3	5.6	37.3	14.3	42.8	113.8
MSCI UK IM Index	4.0	5.4	24.3	6.7	32.0	64.6

## DISCRETE 12 MONTH PERFORMANCE

	12 months to 31/03/2017	12 months to 31/03/2018	12 months to 31/03/2019	12 months to 31/03/2020	12 months to 31/03/2021
B share class (Acc)	24.0%	0.7%	1.6%	-18.1%	37.3%
MSCI UK IM index	22.3%	1.1%	6.5%	-19.4%	24.3%

## TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS

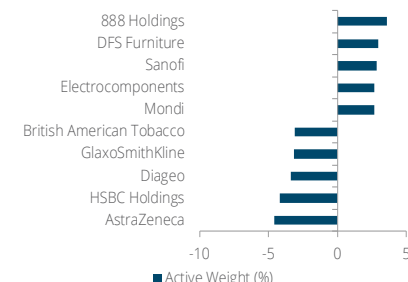
The best and worst contributors to the portfolio's performance relative to the benchmark



Source: River and Mercantile Asset Management LLP

## TOP 5 OVERWEIGHTS & UNDERWEIGHTS

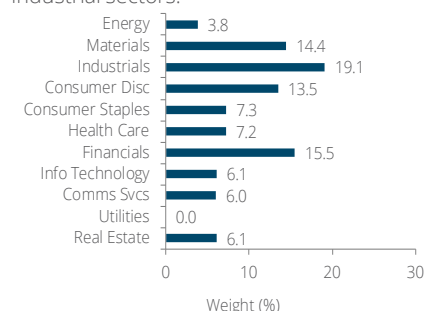
The securities in which the portfolio weight differs most from that of the benchmark



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 (%)
Unilever	4.2
888 Holdings	3.7
Barclays	3.5
Anglo American	3.3
Prudential	3.2
Mondi	3.1
Whitbread	3.0
DFS Furniture	3.0
Electrocomponents	2.9
Sanofi	2.8

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	15.4%
Benchmark Volatility	14.2%
Beta	1.01
Active Money	76.5%

## 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	£80.9m
Domicile	UK
Fund type	UK 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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Email enquiries@riverandmercantile.com

## MARKET CAPITALISATION

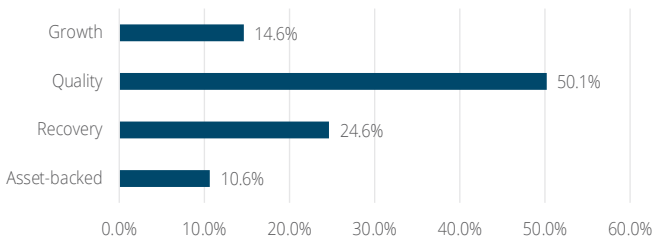
Comparison of portfolio and benchmark weightings across a range of sizes based on company value.

		Fund	Benchmark	Active
Mega Cap	£20bn +	29.6%	55.7%	-26.2%
Large Cap	£4bn - £20bn	23.5%	29.6%	-6.1%
Mid Cap	£2bn - £4bn	7.1%	7.2%	-0.1%
Small Cap	£100m - £2bn	38.9%	7.4%	31.4%
Micro Cap	£0m - £100m	0.0%	0.0%	0.0%

Source: River and Mercantile Asset Management LLP

## CATEGORIES OF POTENTIAL

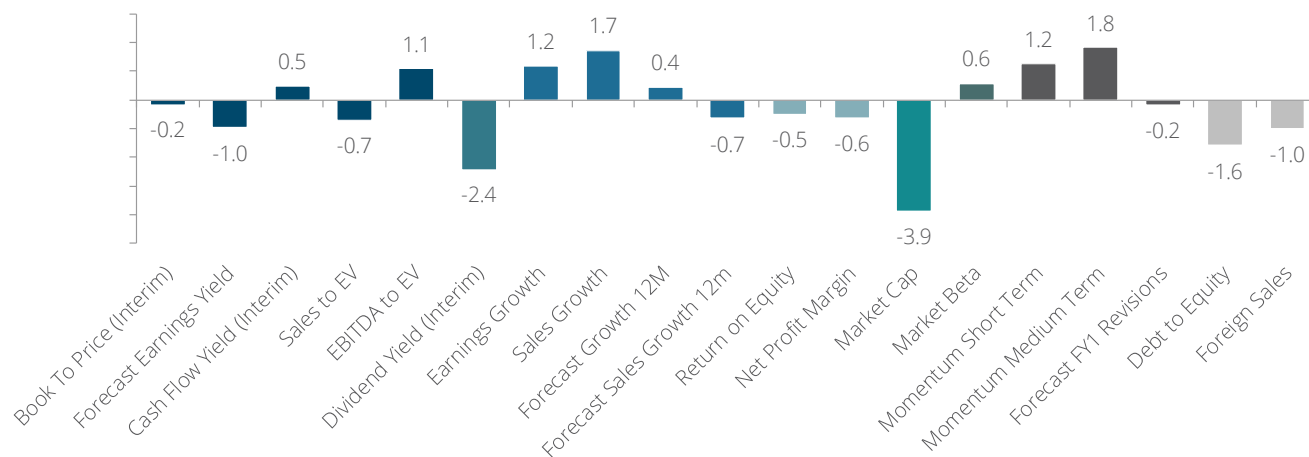
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.



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

Global equity returns remained strong in March (MSCI ACWI +2.7% total return in USD). Broadly speaking, cyclical companies and Value indices continued to outperform defensives and Growth indices. This has been supported by earnings upgrade momentum in resources, financials and autos particularly, but was also driven by higher bond yields. The US 10-year yield rose more than 30 basis points to above 1.7% amidst a backdrop of supportive macroeconomic indicators, and the passing of a \$1.9 trillion US stimulus package and presentation of an additional \$3 trillion bill focused on infrastructure. Commodities prices fell slightly following their particularly strong month in February (Brent oil -1% and copper -2%).

### Strategy update

#### Performance

The fund returned 5.3%<sup>1</sup> in March versus 4.0% by its comparator benchmark, the MSCI United Kingdom Investable Markets index (IMI)<sup>2</sup>

Our key positive contributors, **888 Holdings** (+0.9%) and **DFS Furniture** (+0.5%), were large positions which delivered better 2020 results than consensus expected while pointing to promising near- and long-term outlooks for growth and profitability. Both are taking market share due to the strength of their product offering and brand. 888 also holds significant strategic appeal for any US company looking to acquire online gambling capabilities, which helps underpin its valuation. Underweights in **LSE** and **Rio Tinto** benefitted relative performance.

The only holding that materially detracted was **Cairn Energy** (-0.3%). The market reacted negatively to the simultaneous disposal of producing North Sea oil assets and acquisition of a stake in gas assets in Egypt which require some development spend. The oil price was also less supportive in the short-term and the Indian government have, as expected, decided to challenge the Permanent Court of Arbitration's award of \$1.4 billion to Cairn.

#### Activity

We started a new position in **Speedy Hire**, the UK's leading provider of hire equipment and related services primarily to the construction and infrastructure sectors. Recovery in margin and return on capital is underpinned by a combination of self-help (specifically management focus on driving higher asset utilisation and increased operational efficiencies) and an improving demand environment in terms of both rates and volumes. Operating momentum is positive and there is upside risk to consensus expectations, particularly from under-appreciated operating leverage. Balance sheet strength following a disposal of a non-core business provides flexibility to respond to rising demand and/or undertake accretive bolt-on acquisitions. Valuation is attractive relative to history and recent sector M&A transaction multiples.

We also initiated a holding in **Reckitt Benckiser** (RB), a high-quality defensive branded consumer goods company that is temporarily an 'under-earning franchise' as it re-invests to re-accelerate revenue growth. RB trades at a similar level to late 2019 but growth and returns potential is stronger on the back of this re-investment in multiple growth drivers and active portfolio management driven by management's focused disposal and acquisition strategy. There is broad evidence of underlying growth improvement. We also increased our weighting in **Sanofi**, where we view progress against self-help margin improvement targets and opportunity within the drug pipeline as not fully reflected in the current valuation. On the other side of this activity, we exited smaller positions in **Roche** and **GlaxoSmithKline** (GSK). GSK shares many aspects of the Sanofi investment case but without the current execution and timing support. On balance, we believe RB has more capacity to accelerate organic growth with fewer risks to its near-term outlook.

Our remaining ~100bps position in **Drax** was also sold. The share price moved above our base case fair value estimate, suggesting better risk / reward elsewhere.

### Outlook

Dynamics within financial markets are starting to reflect that a regime shift may be underway to an environment where inflationary forces are more well-balanced, at least, with the disinflationary forces (demographics, technology, excess capacity in some parts of the economy) present for over a decade. In the US, the Biden administration has made it clear that it sees higher nominal economic growth as a tool for societal 'levelling up' and have made large commitments to fiscal spending towards this goal.

Most of our holdings have now reported their 2020 results and provided guidance for the coming year and beyond. We have been positively surprised by the progress made over the last year in the most trying of conditions and are excited by some new opportunities that have emerged from these reports and subsequent meetings with management teams. We think the blend of Growth, Quality, Recovery and Asset-backed categories within the portfolio provides an attractive combination of earnings drivers – from self-help to structural growth – which positions the Fund well for the intermediate term.



**William Lough**  
Portfolio Manager  
April 2021

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

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