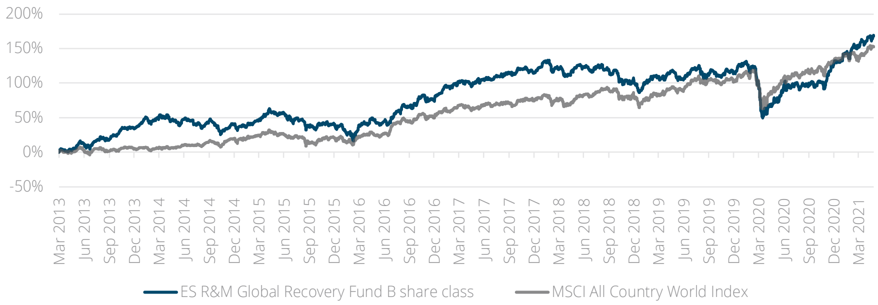
30 APRIL 2021

# ES River and Mercantile
# GLOBAL RECOVERY FUND
CLASS B GBP (Income)

RIVER AND MERCANTILE

## 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 4 March 2013.

*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


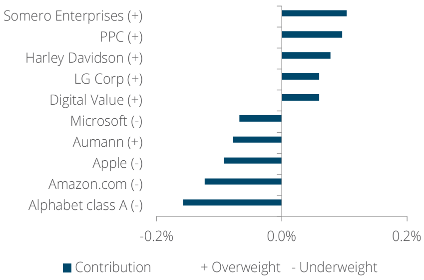

## CUMULATIVE PERFORMANCE

| | 1 month % | 3 months % | 1 year % | 3 years % | 5 years % | Since inception % |
|---|---|---|---|---|---|---|
| B share class (Inc) | 3.3 | 14.0 | 50.0 | 21.4 | 82.6 | 168.6 |
| Benchmark | 4.0 | 8.7 | 32.8 | 44.8 | 102.4 | 152.5 |

## DISCRETE 12 MONTH PERFORMANCE

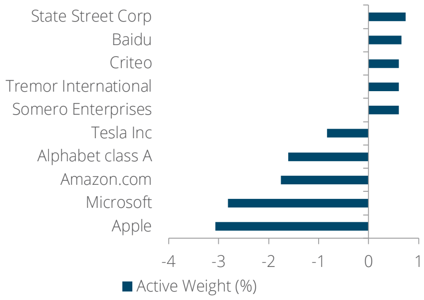
| | 12 months to 30/04/2017 | 12 months to 30/04/2018 | 12 months to 30/04/2019 | 12 months to 30/04/2020 | 12 months to 30/04/2021 |
|---|---|---|---|---|---|
| B share class (Inc) | 35.5% | 11.0% | -2.0% | -17.4% | 50.0% |
| Benchmark | 30.4% | 7.2% | 11.0% | -1.8% | 32.8% |

## TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS
The best and worst contributors to the portfolio's performance relative to the benchmark



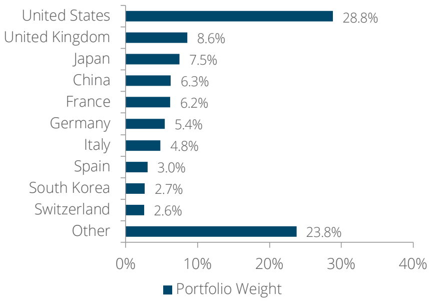

*Source: River and Mercantile Asset Management LLP*

## TOP 5 OVERWEIGHTS & UNDERWEIGHTS
The securities in which the portfolio weight differs most from that of the benchmark



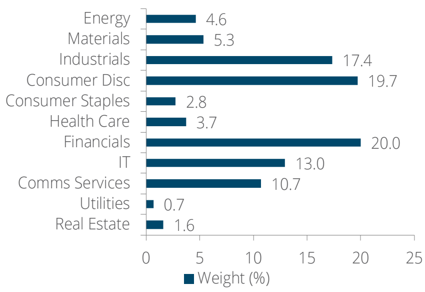

*Source: River and Mercantile Asset Management LLP*

## 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 all fees.

## PORTFOLIO MANAGER
Hugh Sergeant

## PORTFOLIO & RISK CHARACTERISTICS

| | |
|---|---|
| Number of holdings | 456 |
| Fund Volatility | 14.8% |
| Benchmark Volatility | 12.7% |
| Beta | 1.09 |
| Active Money | 83.9% |

## KEY FACTS

| | |
|---|---|
| Fund launch date | 04/03/2013 |
| Share class launch date | 04/03/2013 |
| Benchmark | MSCI All Country World index |
| IA sector | Global |
| Total fund size | £406.2m |
| Domicile | UK |
| Fund type | UK UCITS |
| SEDOL | B9428D3 |
| ISIN | GB00B9428D30 |
| Bloomberg | RMEWREB |
| Distribution type | Income |

## FEES & CHARGES

| | |
|---|---|
| Initial charge | Up to 5.25% |
| AMC | 1.00% |
| Ongoing charge (including AMC) | 1.19% |

## 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

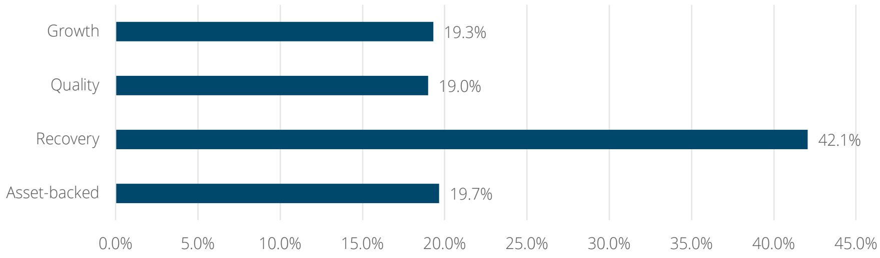
The ten largest positions by weight held in the portfolio.

| | Weight (%) |
|---|---|
| Wells Fargo & Co. | 0.9 |
| State Street Corp | 0.8 |
| PayPal | 0.8 |
| Baidu | 0.7 |
| Alibaba Group | 0.7 |
| Citigroup | 0.7 |
| Facebook | 0.7 |
| Criteo | 0.6 |
| Tremor International | 0.6 |
| Alphabet class A | 0.6 |

*Source: River and Mercantile Asset Management LLP*

## CATEGORIES OF POTENTIAL

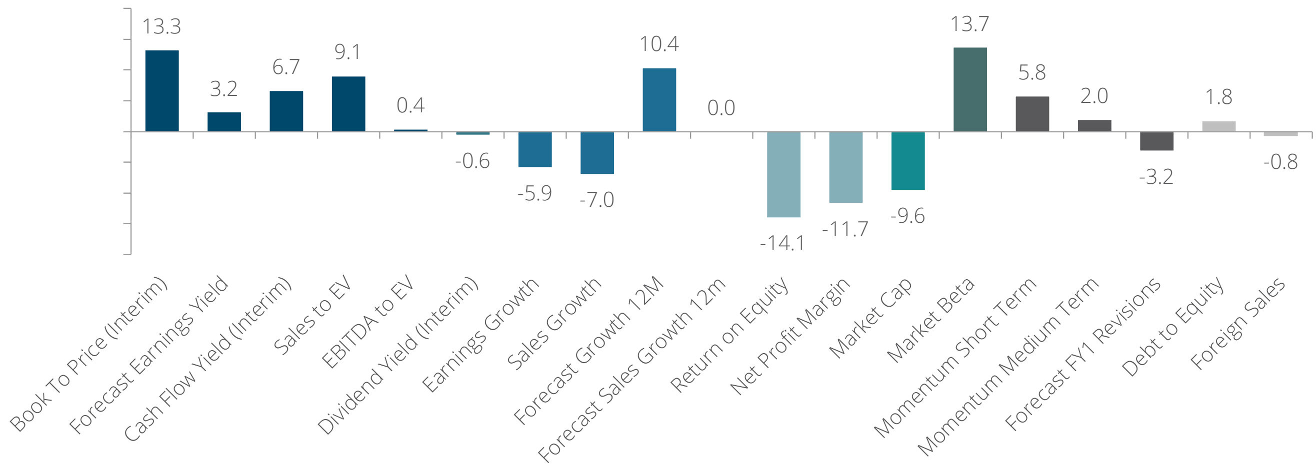
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.




*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

## 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 World 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. Commodity 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 +3.3%[1] in April versus +4.0% by its comparator benchmark, the MSCI All Country World 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.

This month the top contributors to positive performance were clustered around a number of sectors the fund is overweight as we have increasingly felt they have been left out from the rapid stock market recovery. Amongst these are Capital Goods companies Somero (+10bps), LG Corp (+6bps) and Eucatex (+6bps), Materials PPC (+10bps), Banks Wells Fargo (+6bps) and Bank of Ireland (+6bps) and modestly priced Technology stocks such as Digital Value (+6bps) and Criteo (+6bps). Another top performer was Harley-Davidson (+8bps), which rose 20% following a strong 'beat and raise' quarter which built credibility in the Recovery thesis – which has both cyclical and self-help support – under new management.

Once again, our underweight positions in mega-cap tech leaders Amazon (-12bps), Alphabet (-16bps), Apple (-9bps) and Microsoft (-7bps) acted as a significant drag on performance adding up to a combined -45bps underperformance.

#### Activity

During the month of April we continued to buy initial positions in lowly valued high scoring Recovery stock opportunities such as BAM Group, a European construction company with a lot of Recovery potential which is now being actively targeted by the new management's strategy focused on exiting the markets where they have not got a strong presence and have been loss making for a number of years in order to focus on its core market positions of the Netherlands, UK and Ireland.

UK-listed medical device manufacturer Smith & Nephew typically has stable underlying demand, operating primarily in the orthopaedic, joint replacement and wound care markets, but Covid-19 led to deferral (as opposed to cancellation) of elective surgeries and a subsequent -11% fall in revenues in 2020. Our analysis suggests the franchise is not impaired and it will witness a strong recovery in top line and margins, supported by ongoing cost efficiency programmes, in 2021-22.

Sprouts Farmers Market is a US-based grocery retailer with strong top line growth historically driven by store expansion programme. Shares have materially de-rated due to like-for-like (LFL) sales contraction and we bought them trading at the bottom of the range since IPO. With LFL growth restored, its strategy is now focused on re-acceleration of store opening programme which has superior store economics delivered by a revised format. A return to normalised double-digit earnings growth would warrant a higher multiple than the ~11x earnings we paid.

We also participated in the Allfunds IPO, the leading European B2B platform connecting fund managers with distributors, operating a differentiated business model – free to the distributor – which has proved highly successful. It boasts significant growth potential, with historic organic revenue CAGR of 19% since 2012 and similar growth forecast. This growth has multiple drivers: 1) increased market share, 2) underlying growth in European funds (typically ~2-3x GDP), 3) increased penetration of third party services and opening up of distribution, 4) additional services around data & analytics, 5) international expansion, and 7) M&A. Valuation is attractive taking into account this growth runway and the high incremental return on capital.

The main exits during the month were Cargotec, after the price strength year-to-date closed the gap vs our FV estimate and SICIT Group which has been bid for.

### 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.

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**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.*