PORTFOLIO MANAGER'S REPORT

The portfolio manager of the Company is George Ensor. George graduated from Bristol University with an Upper Second Class degree in Chemistry in 2008, before joining Smith & Williamson Investment Management as a graduate trainee where he worked for five years as an analyst and Private Client Investment Manager. George joined River and Mercantile Asset Management LLP in March 2014 as a UK equity analyst. George is a CFA charter holder.

This Portfolio Manager's Report is compiled with reference to the investment portfolio. Therefore, all positions are calculated by reference to their official closing prices (as opposed to the closing bid prices basis within the financial statements). The estimated NAV referenced below is calculated on a daily basis utilising closing bid prices and is inclusive of all estimated charges and accruals.

REVIEW OF PERFORMANCE

The River and Mercantile UK Micro Cap Investment Company delivered strong NAV performance in the twelve month period to the end of September 2020 with the NAV increasing 8.9%, outperforming the benchmark, which fell 2.8%, by 11.7%.

Since inception, the NAV has increased 110.1%, outperforming the benchmark performance of 33.4% by 76.6%.

Period	NAV	Benchmark*	Active return
1 year	8.9%	-2.8%	11.7%
3 years p.a.	3.9%	-2.5%	6.4%
5 years p.a.	13.3%	4.4%	8.9%
Since inception p.a.	13.6%	5.1%	8.5%

Source: River and Mercantile Asset Management LLP, BNP Paribas, Bloomberg Performance to 30 September 2020. Since inception is 02 December 2014. *Benchmark: Numis Smaller Companies plus AIM (Excluding Investment Companies)

MARKET BACKDROP

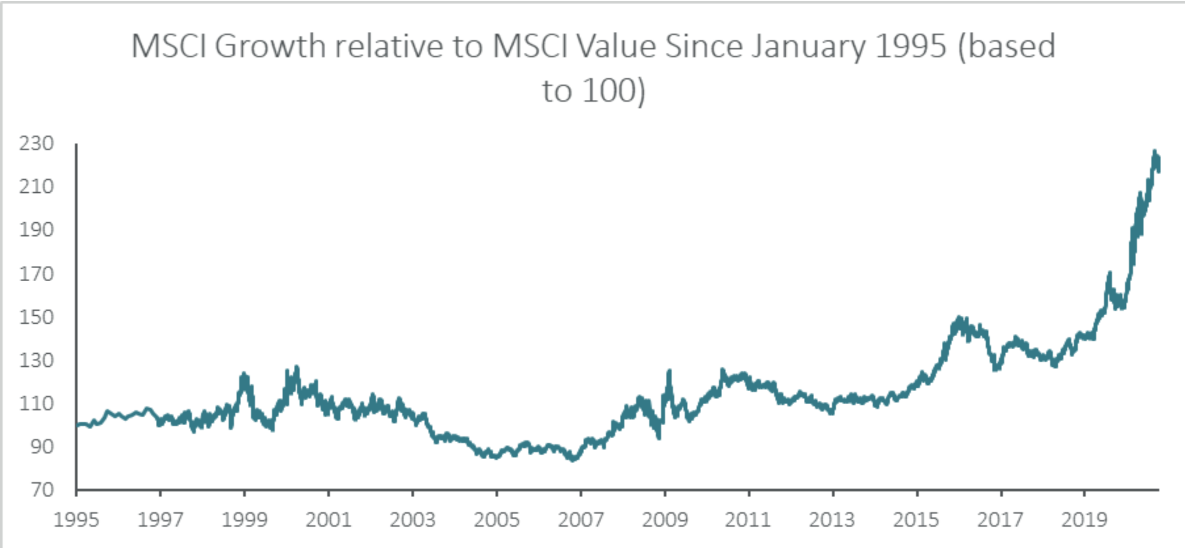
The twelve month decline of 2.8% in the Company's benchmark hides a great deal of volatility. The first quarter was dominated by inflows into UK equities following a historic Conservative election victory, resulting in the index gaining over 13% from the start of the period to the high in early January. This was followed by a drawdown of over 41% as equity indices reacted to the COVID-19 pandemic. The index then recovered by just under 47%, driven initially by the exceptional global fiscal and monetary support and then by the economic recovery as case numbers stabilised.

Markets continue to be dominated by these two factors; caution on one hand with the risk of further shutdowns stalling the recovery versus fiscal stimulus and vaccine success on the other. Add to this the current uncertainty around Brexit, something that is becoming a regular fixture, uncertainty on employment as furlough support tapers and narrow market leadership. There are more reasons than usual to admit that any attempt to forecast what might happen in the future is a fool's errand.

There is however one recent development which has been particularly supportive of the Company's outperformance; the outperformance of UK smaller company equities when compared to the wider UK market. If we compare the total return of the Company's benchmark (Numis Smaller Companies plus AIM excluding Investment Companies benchmark) of 33.4%, to the wider UK equities return (based on the the MSCI UK IMI) of 10.8%, since the Company's inception in December 2014 to the end of September 2020, then we can see that smaller companies have materially outperformed. In the prior annual report, I commented on the prolonged period of underperformance for smaller companies. In fact, on the same basis as above, smaller companies underperformed in every calendar quarter from, and including, the second quarter of 2018 to the third quarter of 2019. That's six consecutive quarters of underperformance. Since then, with the exception of the second quarter in 2020, smaller companies have outperformed.

Growth versus value has been a topic of great debate. It is clear to me that both need to be considered; no rational investor would choose the more expensive of two identical assets and the growth rate that a company can sustainably deliver is key to calculating value. To borrow a phrase from Warren Buffett, "the two approaches are joined at the hip".

Accepting common definitions, growth stocks have clearly outperformed value stocks, and materially so recently. This is evident in the long-term relative performance of the MSCI UK Growth Index versus the MSCI UK Value Index, as shown below. The indices are created by splitting the wider UK index (MSCI UK Index) into stocks that have value attributes and growth attributes (re-balanced semi-annually).



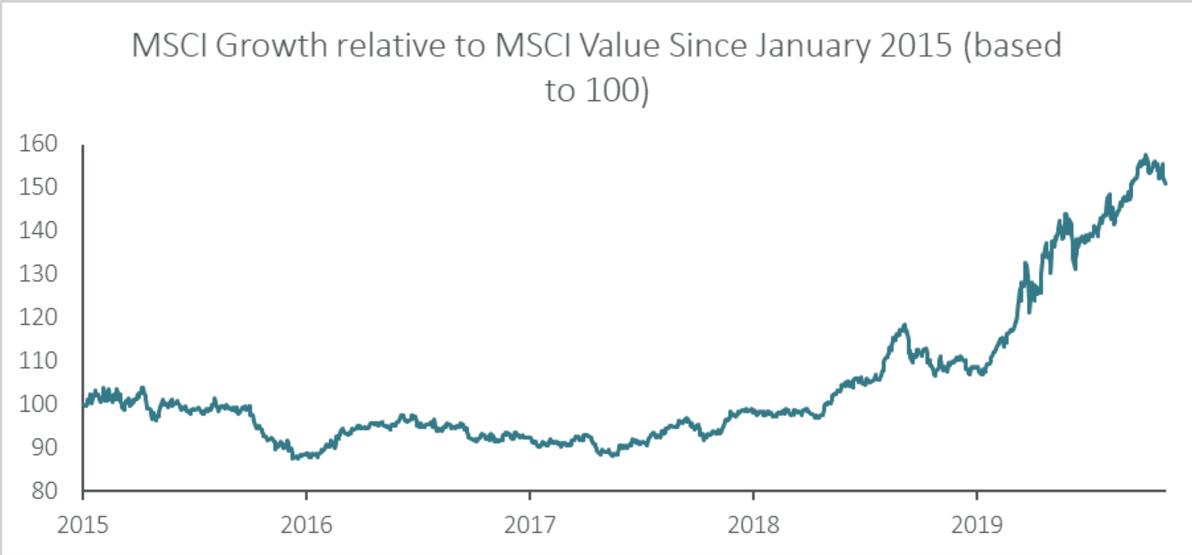
Bloomberg, MSCI*. Data as at 2 November 2020.

It is worth explaining how the indices are built. MSCI uses eight factors including historic sales and earnings growth, book to price, forward PE ratio and dividend yield. Stocks fall in to one of four categories depending on how they score on the eight factors: value and non-growth, growth and non-value, growth and value and non-growth and non-value. Whilst the former two clearly sit in their respective indices, the latter two are split between the indices such that half the wider universe sits in each index.

Why am I explaining this? The point is that the indices are not opposites and as such the commentary can be misleading. Whilst the growth index is biased to stocks that show strong growth attributes, it also has a bias to non-value (or expensive) stocks that the methodology excludes from the value index. Cheap growth stocks are included in both indices.

The outperformance of growth under this widely used analysis is therefore not simply the outperformance of growth but also the outperformance of expensive stocks. Expensive stocks have longer duration – that is, it takes them longer to pay down their market cap in free cash generation than cheaper, shorter duration stocks.

When treasury yields fall – as has happened since mid-2018 and with new lows reached in 2020 – long duration assets outperform. This is evident in the chart overleaf which shows the shorter-term relative performance of the MSCI UK Growth index compared to the Value index.



Bloomberg, MSCI*. Data as at 2 November 2020.

The logic therefore stands that we would expect short duration assets, including value stocks, to outperform if/when Treasury yields move up. For me, the "if/when" element of the prior sentence is the key uncertainty for style performance over the next few years. We will, as always, maintain a multi-factor approach.

The recent outperformance of growth is particularly extreme, and you will notice in the comments on portfolio activity that many of the new investments over the last year have been into *Recovery* and *Asset-backed* investment cases which tend to have greater value credentials.

PORTFOLIO POSITIONING

As previously described, our investment philosophy is a multi-factor approach combining company fundamentals, valuation and momentum. We are looking to invest in companies that have **P**otential to create shareholder value at attractive **V**aluations with supportive **T**iming.

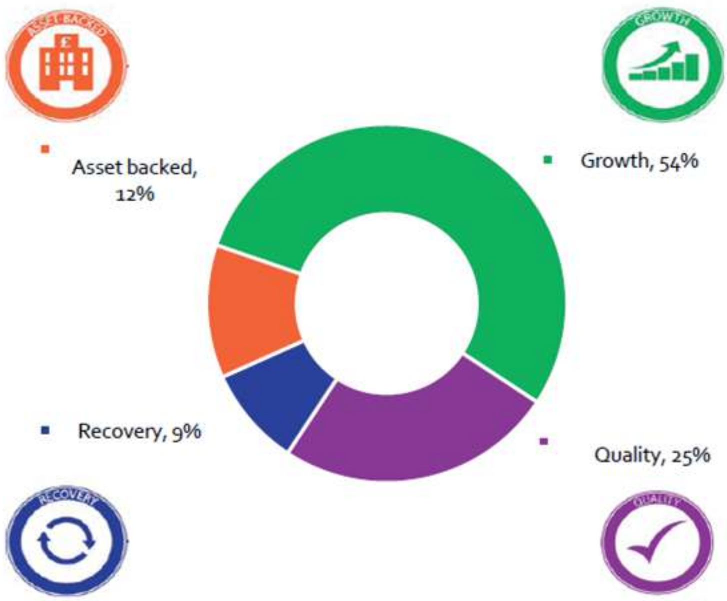
Investors will be aware that within our **PVT** Philosophy there are four forms of Potential: *Growth*, *Quality*, *Recovery* and *Asset-backed*. The portfolio continues to have a bias to *Growth*; that is investing in companies that have the potential to grow revenues and profits at a higher rate than average. *Quality*, companies that have high and improving return on capital, remains the second largest category.

Recovery and *Asset-backed* opportunities, and cash, make up the balance of the portfolio. When we invest in *Recovery* stocks, we are looking to buy into companies where returns are depressed when compared to the last ten years but have begun to improve. And with *Asset-backed*, confidence in the value of the assets is key and we look for asset value upgrades to drive the share price performance.

The exposure to different categories as at the 30 September 2020 is shown overleaf.

** Source: MSCI. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.*

Category Skew (ex cash)



Source: River and Mercantile Asset Management LLP

When compared on the same ex-cash basis to category exposure at the 30 September 2019, *Growth* is 5% higher having been 49%, *Quality* is 7% lower, *Recovery* 4% higher and *Asset -backed* 2% lower.

The following table illustrates some of the key factor characteristics of the portfolio and the equivalent data for the benchmark.

		River & Mercantile UK Micro Cap Investment Company	Numis Smaller Companies (plus AIM) Ex-IT Benchmark
P	Historic 3Y Sales per Share	23.0%	11.7%
	1Y Forecast Sales Growth	15.5%	6.9%
	Historic 3Y Earnings Growth	34.4%	10.6%
	1Y Forecast Earnings Growth	24.7%	8.2%
	Net Profit Margin	8.4%	12.6%
V	One Year Fwd PE Ratio	18.3	24.3
	Two Year Fwd PE Ratio	11.8	15.9
	Free Cash Flow Yield	5.4%	5.4%
	Enterprise Value / EBITDA	8.3	14.3
T	3 Month Earnings Revisions	3.9%	3.0%

Source: StyleAnalytics

Focusing on *Growth* **P**otential, the Company's portfolio has a bias to companies that have historically grown revenue and sales at a faster rate than the market (as demonstrated by the benchmark data). For instance, the realised 3Y historic growth rate in revenue for the portfolio is 23% which is almost double the 11.7% realised by the benchmark.

On **V**aluation, the average valuation of the portfolio is cheaper than the benchmark. For example, on a two year forward basis, the average PE ratio for the portfolio is 11.8x which is a discount of more than 25% to the benchmark's 15.9x.

Finally, on **T**iming, this is most easily demonstrated by comparing three month EPS revisions for the portfolio compared to the benchmark. The portfolio's average upgrade of 3.9% is ahead of the 3% average seen for the benchmark.

PORTFOLIO ATTRIBUTION

MaxCyte had the greatest impact on portfolio returns in the period. The company is a market leader, backed by intellectual property, in the high growth cell therapy industry. Their market position as a key partner to pharmaceutical and cell therapy companies has delivered compound annual revenue growth of 25%, all organic, over six years. Whilst the company has consistently delivered, supporting our conviction, the share price has not reflected this. The shares underperformed through 2018 and 2019 and were a drag to performance. We supported fund raises in February 2019 at 170p and in April 2020 at 131p. The shares were valued at 368p at the end of September 2020.

MaxCyte is our largest position and, at 7.3% of NAV at the end of the period, our only position in excess of 5%. It is worth noting that we own two separate lines of stock and the holding has been illustrated as such in the portfolio holdings disclosure, the two lines will combine into one on the anniversary of the most recent (April 2020) fund raise.

The recent developments in MaxCyte are also noteworthy and have, in my opinion, contributed to the recent share price performance. The first is that the company is planning to dual list on the NASDAQ exchange in the US by the end of 2021, and by doing so raise the profile of the company with US investors. The second development is the announcement that CARMA, a wholly owned therapeutics company which is progressing a phase 1 trial, will be independently financed from next year. This is a challenging part of the business to value and the company's valuation was being negatively impacted given the R&D funding requirements that it required. As such, the business should be profitable and self-funding from 2021.

Venture Life was the second most significant contributor to returns, the shares gained 159% over the period. The company manufactures self-care products on both an own-brands and a third-party basis. The company delivered 65% organic growth largely due to the success of their Chinese distribution agreement for oral care products and their re-launched hand sanitising brand, DisinPlus. Given the spare capacity in their manufacturing site, the company required limited additional cost investment to deliver the higher revenue. Profits therefore increased at a much higher rate than sales with EBITDA (earnings before interest, tax, depreciation and amortisation) 368% higher than the prior period.

Our precious metals exposure also made a meaningful positive contribution. Gold producers **Shanta Gold, Hummingbird Resources** and **Serabi** gained 109%, 49% and 26% respectively on the elevated gold price which set a new record high in August. Each company demonstrated strong operational delivery and progressed with both their exploration and acquisition strategies. Our position in **Capital Ltd** (previously Capital Drilling) also performed well with the investment thesis of returns improving as fleet utilisation improves playing out. Finally, **Sylvania Platinum** gained 68% in the quarter on both strong delivery and high platinum group metal prices, particularly Rhodium.

I covered the poor performance of **XLMedia, Adept Technology, SDX Energy and Ince Group** in the interim report. I flagged that we had sold down the position in XLMedia to just 0.5% and we completed the exit of this position in the second half. I also made the case that the market's view of the other three underperformers, Adept Technology, SDX Energy and Ince Group, seemed harsh. This remains the case, particularly so for SDX Energy. The investment case has been strengthened by a number of positive updates, including a high value commercial gas discovery, the value of which have not been recognised in the share price performance. As a reminder, the business is almost entirely exposed to fixed price gas contracts.

Adept Technology has played a key role in migrating hundreds of schools to the cloud, enabling them to work remotely, and helped hundreds of doctors' practices become virtual practices. Ince Group remains in the early stages of the recovery investment case but has grown revenue, improved gross margin from the international offices and paid down some debt since reporting numbers in August.

There are two additions to the first half underperformers that require commentary. **Science in Sport**, the sports nutrition brand, lost 29% in the period. With only a third of 2019 sales generated online, lockdown had a significant impact on the company's bricks and mortar distribution channel. For revenue to be down just 5% year on year in the six months to June and for gross profit and underlying operating profit to be marginally better is, in my opinion, a fantastic result, but one that has not been recognised by the market.

Finally, the company with the most substantial negative contribution to the portfolio of the twelve month period was **Tekmar Energy**. The investment case is premised on the group's core capability, the protection of undersea cables. This may sound trivial but a broken cable to an offshore wind farm is an expensive problem to fix and Tekmar have a fail-safe, low cost solution. Add to this the strong growth opportunity in offshore wind and the result should be a high returns business exposed to a strong structural growth story. It was this investment case, supported by an attractive valuation and positive earnings momentum that made Tekmar a high conviction position. The shares lost 50% in the year; supply chain disruptions in China meant that the company had to source more expensive parts, impacting gross margin. Project delays have also impacted revenue for the six months to the end of September. These disappointments have resulted in the departure of the CEO. We had reduced our position ahead of the large share price decline in February and continued to reduce the position thereafter.

PORTFOLIO ACTIVITY – NEW POSITIONS AND EXITS

In total, there were 13 new entries to the portfolio over the period and 14 positions exited. Turnover has been relatively high but understandable given the volatility and corporate issuance. I will comment on the new positions in order of their position size at 30 September 2020:

Instem (2.4%) – a great example of a company that is a market leader in a small niche. The company provides software solutions to life sciences companies which enable them to collect, analyse and submit data to clinical agencies such as the FDA (Food and Drug Administration). As is typical for software businesses with leading market shares, the company has historically delivered high return on capital, supporting the Quality investment case, whilst also successfully delivering organic and acquisitive growth. The latter is set to continue given the fund raise that was completed in June for that purpose, which we supported.

Flowtech Fluidpower (2.1%) – we invested in this specialist distributor of fluid power products which has consistently delivered attractive gross margins to support the self-help Recovery thesis. We believe returns can at least recover back to levels where they have previously been and that is currently far from priced in given their depressed valuation. The business continued to generate cash and pay down debt in the first six months of 2020.

Joules (2.0%) – as a clothes retailer with over 100 stores, it is understandable that Joules' margins collapsed in their financial year to May 2020. However, with a strong eCommerce offering, which has delivered substantial growth, and the ongoing rent negotiations which are expected to decrease fixed costs, the future margin opportunity is exciting. This supports the Recovery investment case with the level of conviction aided by the strong balance sheet.

Cake Box (1.9%) – the franchise business model that Cake Box employs requires limited capital, delivering high return on capital and underpinning the Quality investment case. There is also an attractive case for growth, through the addition of franchisee stores every year, and the company has seen demand from future franchisees strengthen over the recent period. Strong recent like for like trading has also supported Timing, adding to our conviction in the holding.

Kooth (1.8%) – mental health is a public health service where, unfortunately, demand outstrips supply. Kooth provides free mental health services to children and young people in the UK through the provision of digital services including content and counselling. The company contracts with the NHS and is encouraged to drive usage in the target demographic to expand contracts. Kooth is the clear market leader and believes that the opportunity within children and young people in the UK is worth up to £85m per annum, supporting the Growth thesis.

Mind Gym (1.7%) – the company provides behavioural science training to corporates and is an example of a company that we considered at IPO (we failed to build conviction given the expensive valuation). The shares have since underperformed, providing us with an attractive entry point into a compelling Growth thesis. Whilst the business has typically delivered face to face training, there is clearly an ongoing need for the product and the mode of delivery has, like so many other things, pivoted to digital.

GetBusy (1.6%) – a document and task management software business that is re-investing cash generated from one mature solution, Virtual Cabinet, to drive growth in another, SmartVault, and launch a third, GetBusy. The key to the business is strong vertical knowledge delivering solutions which meet the requirements of their customers. These are typically accountancy firms for the two existing document management solutions. Recent trading has been more than resilient with recurring revenue growing by 18% in the first half of the year, highlighting the strong *Growth* credentials.

Ten Lifestyle (1.6%) – a technology-led concierge business with a B2B2C business model. Ten offers clients including Visa, Mastercard and HSBC a concierge service for their customers to reduce churn and maximise customer lifetime value. The company has had success with new contract wins and the investment in technology is enabling high drop through margins on incremental revenues. Despite an historic bias to booking flights and hotels, the company has guided that revenues for the year to the end of August 2020 will only be marginally lower than the prior year. Given the circumstances, this is another impressive trading result.

The City Pub Group (1.5%) – Freehold ownership of 30 of the company's 52 pubs underpins the *Asset-backed* investment case. We invested in the fundraise at 50p in March and have since added to the position. Whilst pub trading is currently challenged, the company is better placed than most given its scale, quality of assets and strong balance sheet. The directors valued the assets of the company at 132p per share at 30th June 2020.

Manolete (1.4%) – is the dominant funder in the UK insolvency market. Manolete typically buys insolvency cases with minimal upfront capital and an agreement to pay away a percentage of any post cost award. A track record of high returns supports the *Quality* investment case with **T**iming likely to be supported over the next few years by an elevated number of insolvency events.

The Ince Group (1.1%) – an international legal services company which has grown through acquisition. We supported a fund raise to re-build the balance sheet in January. The company has delivered year-on-year revenue growth in the first five months of their current financial year and improved gross margin from their international operations. The company's current enterprise value of £22m compares to prior year revenue of £98.5m and I would expect the company to re-rate to a more normal EV/Sales multiple as it the company proves its cash generation capabilities and pays downs debt.

SigmaRoc (0.8%) – the company is pursuing a buy-and-build strategy in construction materials. As a small player with a decentralised model, it is able to acquire good assets that are non-core to other businesses on attractive terms with obvious opportunities for improvement, underpinning the *Quality* investment case. Breedon Plc has very successfully executed on a similar strategy. SigmaRoc has acquired five businesses since 2017 and, in each cash, has realised attractive margin improvements.

Revolution Bars (0.6%) – operates 73 leasehold bars. The company had begun to deliver on a self-help *Recovery* investment case in 2019 with a focus on closing marginal sites and re-investing in the existing estate to drive improved like-for-like trading. The company raised £15m in July to support the business through what is going to be an extended period of tough trading. The current enterprise value of approximately £20m compares to the average EBITDA over the last seven years of £13m per annum.

I commented on the exits from **Cello Health, Nasstar, Tremor International, Berkeley Energia, Dekeloil, Altitude, Cyanconnode, Genedrive** and **Lekoil** in the interim statement. As previously noted, we completed the exit of **XLMedia** in the second half. **Clearstar** was sold following a bid from Hanover partners and **Wey Education** was exited on valuation concerns. Both **Driver Group** and **Smartspace Software** were exited on poor earnings momentum.

OUTLOOK

These are not easy times for writing outlook comments. Importantly, we do not have an approach which is premised on forecasting what is about to happen. We do have a tried and tested philosophical approach and process that has supported attractive alpha for both this and other strategies since 2006.

The opportunity set remains as rich as ever; the combination of our approach, the lack of sell side coverage and the inability for larger funds to access this part of the market remains supportive for investing in great undervalued businesses. UK equities are a consensus underweight for global asset allocators and, whilst narrower than a year ago, there remains an additional discount on smaller cap equities within the UK.

George Ensor
Portfolio Manager
17 December 2020