RIVER AND MERCANTILE

ES RIVER AND MERCANTILE DYNAMIC ASSET ALLOCATION FUND

Quarterly report to 30 September 2021

For unitholders only

ES River and Mercantile
DYNAMIC ASSET ALLOCATION FUND

Quarter 3, 2021

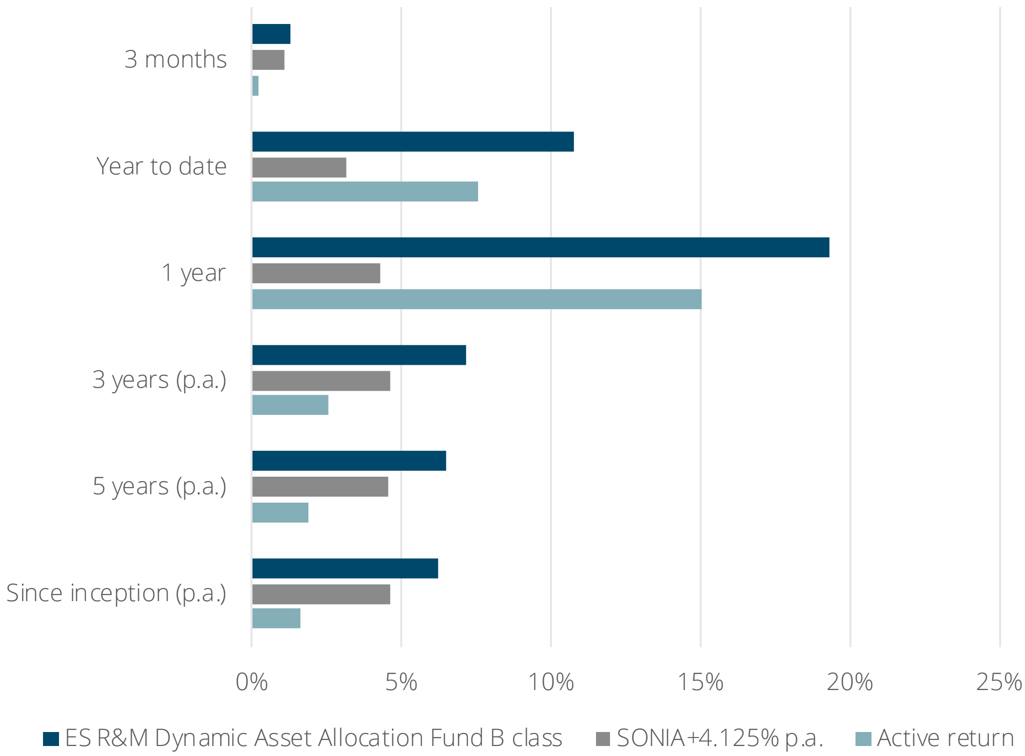
RIVER AND MERCANTILE

INVESTMENT OBJECTIVE

The objective of the strategy is to achieve an average return (income and growth in the value of your investment (known as "capital growth")) of 4.25% per year above cash (based on the SONIA interest rate) (the "Benchmark") over a rolling 3-year period, after the deduction of all fees.

PERFORMANCE

	Fund	Benchmark	Difference
3 months	1.3%	1.1%	0.2%
Year to date	10.7%	3.2%	7.6%
1 year	19.3%	4.3%	15.1%
3 years (p.a.)	7.2%	4.6%	2.6%
5 years (p.a.)	6.5%	4.6%	1.9%
Since inception (p.a.)	6.2%	4.6%	1.6%



	Fund	Benchmark	Difference
3 years (cumulative)	23.1%	14.5%	8.6%
5 years (cumulative)	37.0%	25.1%	11.8%
Since inception (cumulative)	53.3%	37.6%	15.7%

Source: River and Mercantile Group PLC. Fund performance shown is of B share class (accumulation units) and is calculated using the midday published price, net of an annual management charge of 0.55% per annum. Other share classes may be available. ***Past performance is not a reliable indicator of future results.***

PORTFOLIO SUMMARY

AUM	£215.8m
Benchmark	3 month SONIA + 4.25% p.a.
Inception date	2 September 2014
IA Sector	Mixed Investment 20%-60%

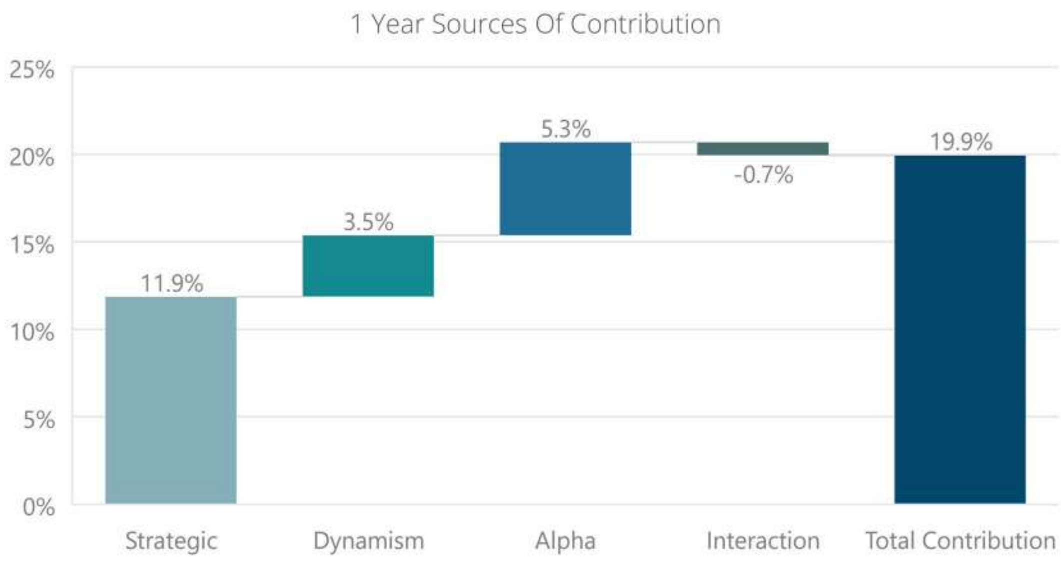
SYNTHETIC RISK AND REWARD INDICATOR

The Synthetic Risk and Reward Indicator (SRRI) is based on how much the returns of the shares have varied over the last five years, or since launch (whichever is the shorter period). The higher the rank the greater the potential reward but also the greater the risk of losing money.

Performance continues to be strong

With another quarter in the rear-view mirror, performance continues to be strong over 2021. This has primarily been driven by two factors:

- Our preference for equities. Global equities have risen throughout the year, supported by loose policy and the normalisation of economic activity. We anticipated policy to be the fundamental tailwind for equities and successfully positioned our portfolio accordingly. The equity allocation has (on average) been c.57% year to date, initially positioned towards more cyclical companies before later rotating towards higher quality sectors.
- Our ability to add value through dynamism. We have remained proactive in navigating the inevitable bumpy markets that presented themselves. As we move closer towards a post-pandemic world and the withdrawal of policy, investor apprehension has been rising. This has presented a number of opportunities where markets have diverged from our macro view. We estimate our value add over the past 12 months relative to a static benchmark asset allocation to be c.8.8%



Strategic are benchmark returns had we remained static in our asset allocation. Dynamism and alpha are the value added from rotating between asset and sub-asset classes and our security selection relative to benchmark. Interaction is a balancing term.

What are we looking at going forward?

Primarily, we expect there to be two factors which will be key in determining asset returns over the coming twelve months: inflation and policy. These are by no means independent of one another, however we breakdown our macro views of each below.

US inflation (the key inflation metric that is influencing markets), has spiked to levels not witnessed since 1990. Rather than consumer driven, inflation has risen sharply due to supply chain disruption. As demand recovers towards pre-pandemic levels, supply chains have struggled to come back online at the same pace, creating considerable bottlenecks. The resulting imbalance in supply and demand has driven prices upwards, evident in a wide range of sectors including lumber, shipping, and semiconductors.

Much of the conversation has centred around whether this inflation is 'transitory'. The crux of the debate is whether inflation may remain elevated for a period longer than the market anticipates (and consequently causes policy makers to intervene), or inflation will moderate as supply chains catch up. Our base case is the latter, however we recognise the risks that higher-for-longer inflation presents. It is by no means inconceivable that logistical issues take longer to be ironed out, particularly were the situation exasperated by a major port lockdown or higher energy prices (for example).

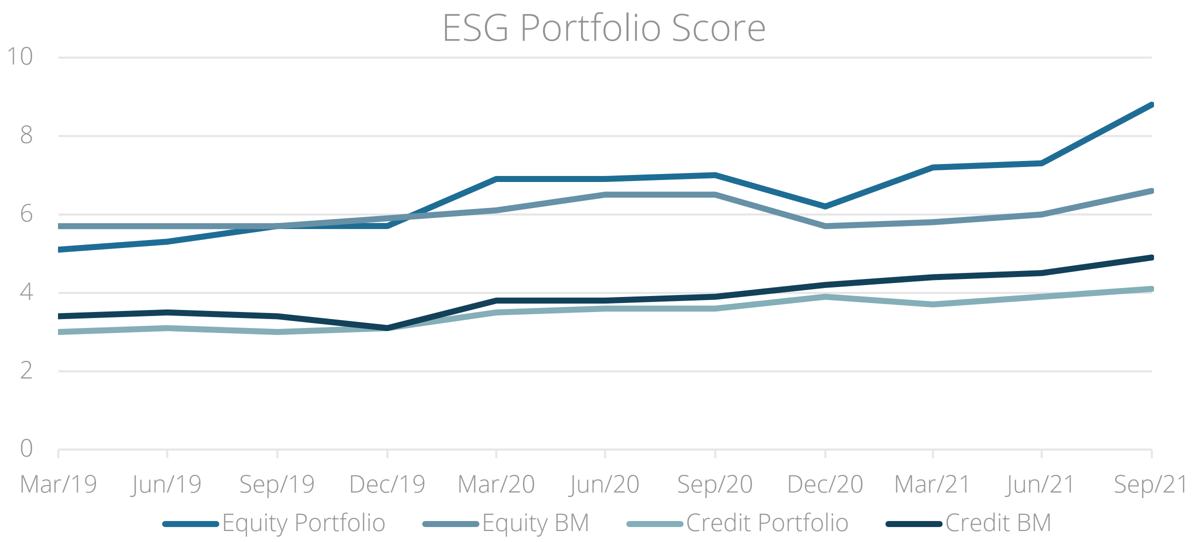
As a result, we are watching two key metrics to monitor the impacts of inflation:

- Wages and their breadth. Our view has been that sustainably higher inflation is unlikely to materialise without a tighter job market, but as unemployment falls, we are beginning to see wage pressures broaden out. Were wage growth to become more widespread, higher inflation for longer becomes more likely.
- Credit growth. Money supply has materially increased throughout the pandemic as central banks provided liquidity to markets. However much of this has resulted in excess savings and is yet to be deployed - consumer balance sheets are extremely healthy and household debt service costs are at record lows. However commercial banks are not yet actively extending additional loans, one of the key drivers of inflation.

Policy has been effective in providing an important backstop for markets, however as economies begin to require less support, investors are preparing for the withdrawal of stimulus. Most pertinent is the pace of this withdrawal and to what extent policymakers may be forced to act as a result of the aforementioned inflation. Historically the withdrawal of monetary support has coincided with periods of weaker equity returns, and this may well act as a headwind for equities over the coming year. But we expect it to be a while until tighter policy acts as an outright drag on risk markets – and hence still expect equities to perform positively over the next year or so.

As we've mentioned previously though, we are close to (if not past) the point of "peak economic improvement" and this argues for a lower core risk position than earlier in the year. While there will still be opportunities in cyclical sectors, we're expecting to take advantage of these much more tactically then earlier in the year, and we'd expect our core equity allocation to remain focussed in higher quality parts of the market going forwards.

These higher quality companies also tend to have stronger ESG credentials, a tailwind for our equity portfolio which continues to score highly on ESG characteristics. We expect to introduce a similar ESG process to our credit portfolio over the coming months.



Source: MSCI ESG

Given the current low levels of compensation from corporate credit, our preference for equities over credit is set to remain for the immediate future. We're also expecting government bond yields to continue their move higher over the next few months and as a result continue to hold very little duration for now.

We expect opportunities to persist

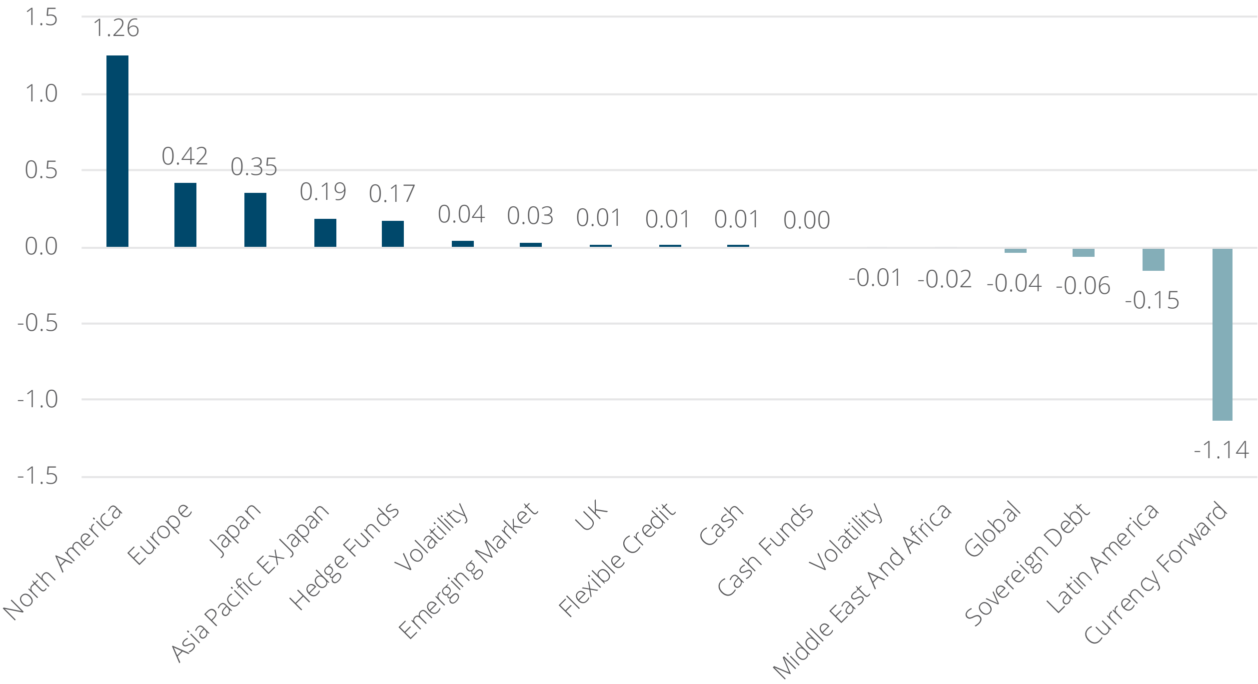
As we've shown throughout the last year, the strategy is well placed to take advantage of quickly changing market conditions. And as economic conditions moderate we'd expect more bouts of volatility, creating perfect conditions for this sort of strategy.

Mike Faulkner & Joe Andrews
Portfolio Managers

October 2021

RELATIVE CONTRIBUTION TO RETURN OVER THE QUARTER

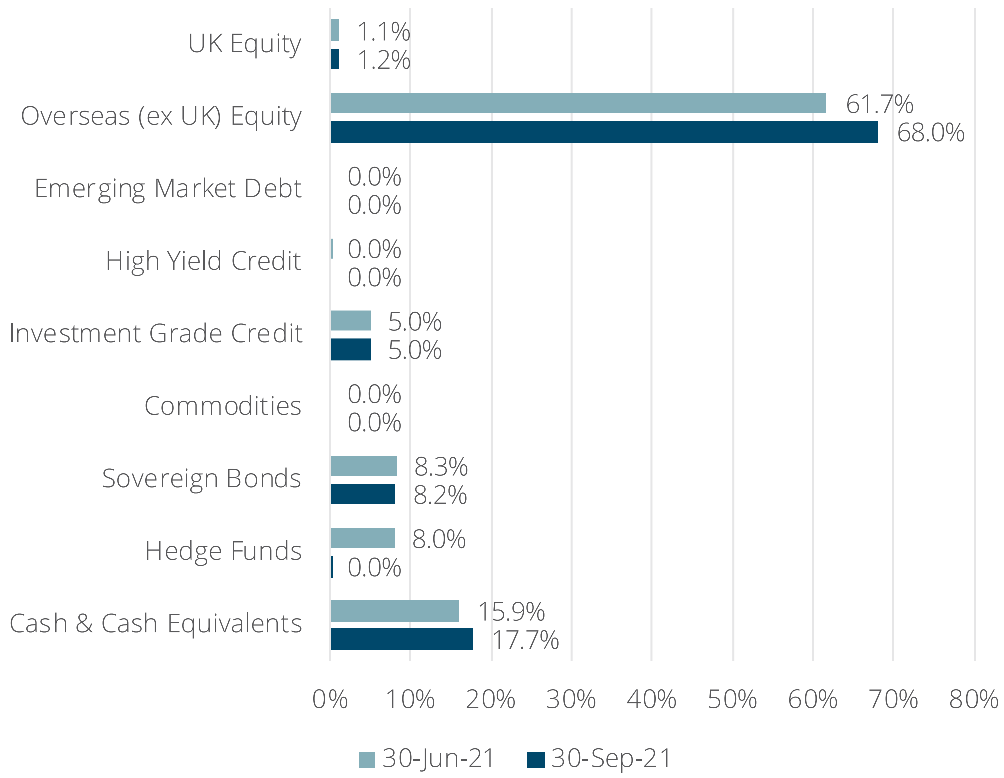
This chart shows the relative contribution to the portfolio's return by region and asset class.



Source: FactSet, based on close of business valuation, gross of fees

ASSET ALLOCATION

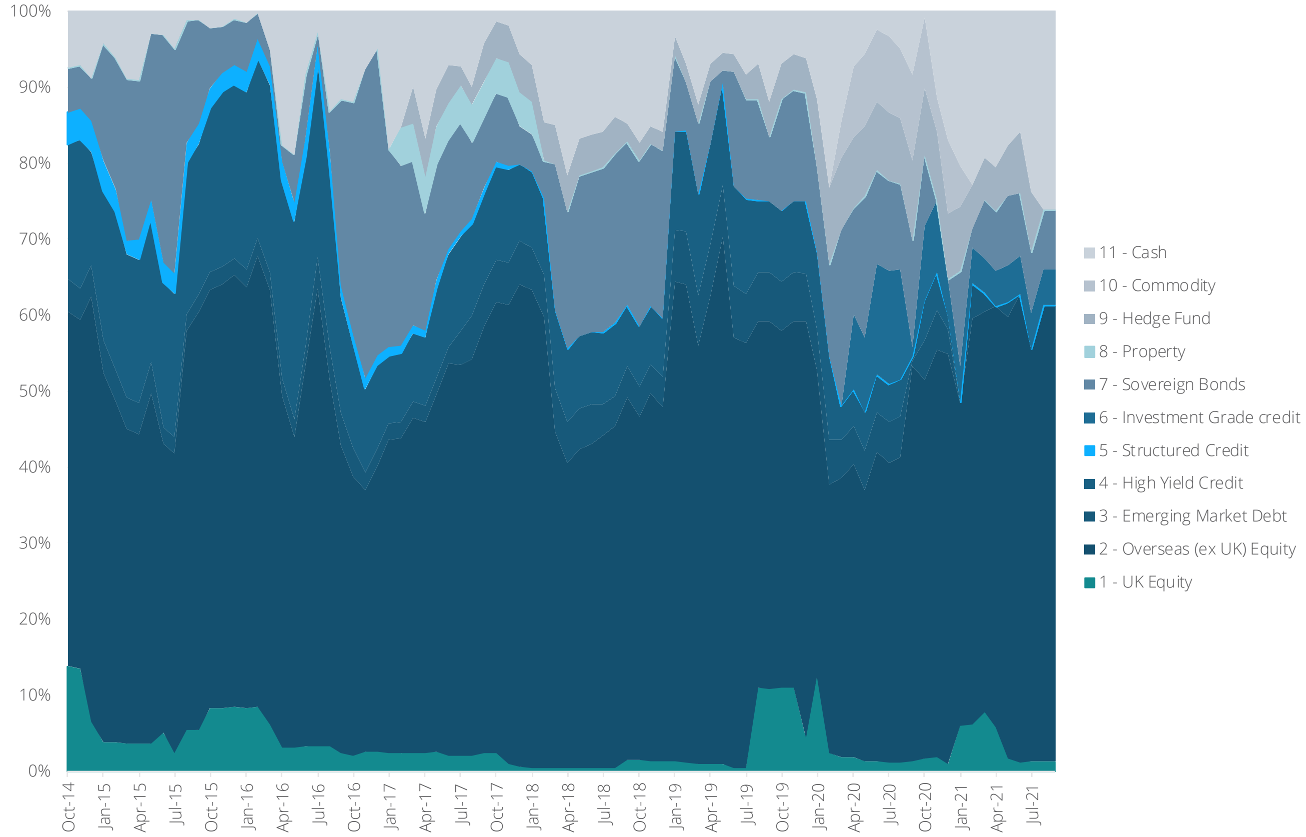
This chart shows the fund's allocation to different asset classes by portfolio weight, at the most recent quarter-end versus the previous quarter-end position.



Source: River and Mercantile Group

ASSET ALLOCATION EVOLUTION SINCE INCEPTION

This chart shows the evolution of the portfolio's weighting to different asset classes over time, since its inception in September 2014.



Source: River and Mercantile Group

TOP 10 HOLDINGS

This table shows the fund's ten largest holdings by weight.

	Weight (%)
UK Treasury 4% March 2022	8.2
BlackRock ISC Sterling Liquidity Fund	5.5
ES R&M European Fund	5.1
Neuberger Berman Global Flexible Credit Fund	5.0
Vanguard S&P 500 UCITS ETF	4.1
Vanguard S&P 500 ETF	4.0
Insight GBP Liquidity Fd	2.9
X-trackers MSCI Canada UCITS ETF	2.1
iShares S&P 500 Health Care Sector UCITS ETF	2.1
Thermo Fisher Scientific	1.9

Source: River and Mercantile Group

BROKER COMMISSIONS ANALYSIS

Counterparty	Total (£)	Commission Paid (£)
		Execution Only
ABG SUNDAL COLLIER	0.00	0.00
ATLANTIC SECURITIES	0.00	0.00
BANCO ITAU	0.00	0.00
BARCAP	0.00	0.00
BERENBERG	0.00	0.00
BNP PARIBAS SEC (ASIA) LTD	0.00	0.00
BTG PACTUAL	0.00	0.00
CANACCORD ALGO	0.00	0.00
CANACCORD GENUITY	0.00	0.00
CENKOS	0.00	0.00
CITI PROG	44,905,772.57	13,747.56
CITIGROUP	0.00	0.00
CLSA	0.00	0.00
CREDIT SUISSE	0.00	0.00
DEUTSCHE BANK	0.00	0.00
EXANE	0.00	0.00
FINNCAP	0.00	0.00
GBM	0.00	0.00
GOODBODY	0.00	0.00
HSBC	0.00	0.00
ING	0.00	0.00
INSTINET	0.00	0.00
INVESTEC	0.00	0.00
ITG	0.00	0.00
ITG ALGO	0.00	0.00
ITG EURO	0.00	0.00
J&E DAVY	0.00	0.00
JANE STREET	0.00	0.00
JEFFERIES	522,671.98	365.87
JEFFERIES ALGO	0.00	0.00
JPMORGAN CHASE	0.00	0.00
KEPLER CHEUVREUX	0.00	0.00
LIBERUM	0.00	0.00
LIQUIDNET	0.00	0.00
MEDIOBANCA	0.00	0.00
MIZUHO	0.00	0.00
MORGAN STANLEY	0.00	0.00
NPLUS1 SINGER	0.00	0.00
NUMIS	0.00	0.00
PANMURE GORDON	0.00	0.00
PEEL HUNT	0.00	0.00
RAYMOND JAMES	0.00	0.00
RBC	0.00	0.00
RBC ALGO	0.00	0.00
REDBURN	0.00	0.00
SANTANDER	0.00	0.00
SHORE CAPITAL	0.00	0.00
STIFEL EUROPE	0.00	0.00
STIFEL NICOLAUS	0.00	0.00
UBS	0.00	0.00
UBS PROG	37,345,331.26	8,864.91
WINTERFLOOD	0.00	0.00
FLOWTRADERS	0.00	0.00
CONFIRMED FUND PRICE	0.00	0.00
OPTIVER	0.00	0.00
BANK OF MONTREAL	0.00	0.00
BTIG	0.00	0.00
CITADEL INVESTMENT GROUP L.L.C.	0.00	0.00
STIFEL FINANCIAL CORP	0.00	0.00
CITI UK	0.00	0.00
LIQUIDNET ALGO	0.00	0.00
SUSQUEHANNA INTERDAA EquityONAL G	0.00	0.00
	£ 82,773,775.81	**£ 22,978.34**

Firm Wide Comparators

All Equity Trading	**£ 942,644,220.83**	**£543,145.84**
Trades:	**£ 82,773,775.81**	**£22,978.34**
Average Firm-Wide Commission Rate (%)		0.06%
: Average Commission Rate (%)		0.03%

Source: River and Mercantile Asset Management LLP

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