31 JANUARY 2022

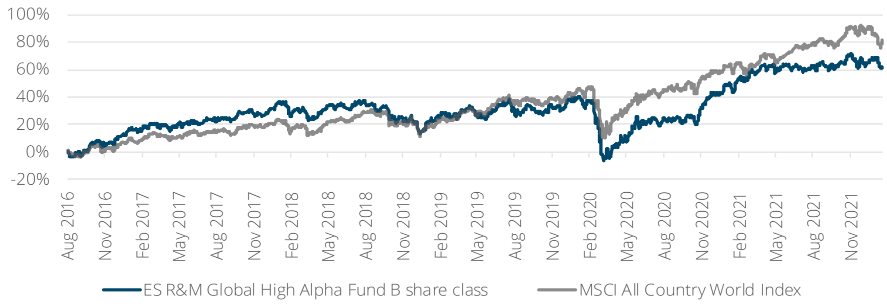
# ES River and Mercantile
# GLOBAL HIGH ALPHA FUND
CLASS B GBP (Accumulation)

RIVER AND MERCANTILE

## 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 12 August 2016.

*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



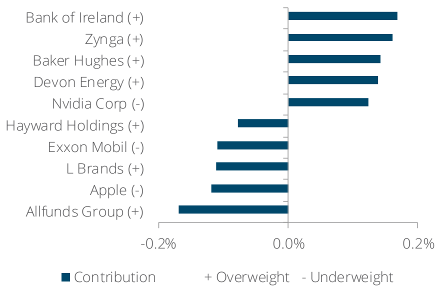

## CUMULATIVE PERFORMANCE

| | 1 month % | 3 months % | 1 year % | 3 years % | 5 years % | Since inception % |
|---|---|---|---|---|---|---|
| B share class (Acc) | -2.7 | -1.3 | 12.8 | 30.4 | 40.0 | 62.1 |
| Benchmark | -4.0 | -1.4 | 15.9 | 50.7 | 70.0 | 81.7 |

## DISCRETE 12 MONTH PERFORMANCE

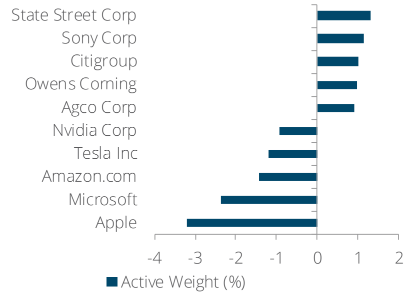
| | 12 months to 31/01/2018 | 12 months to 31/01/2019 | 12 months to 31/01/2020 | 12 months to 31/01/2021 | 12 months to 31/01/2022 |
|---|---|---|---|---|---|
| B share class (Acc) | 15.6% | -7.1% | 6.4% | 8.7% | 12.8% |
| Benchmark | 12.8% | 0.0% | 15.8% | 12.3% | 15.9% |

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



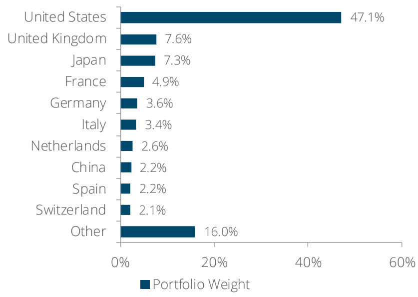

*Source: River and Mercantile Asset Management LLP*

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



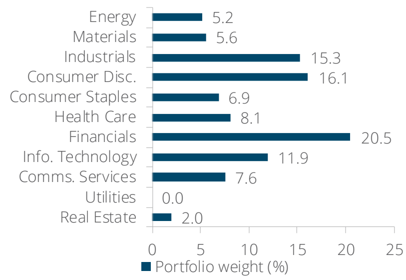

*Source: River and Mercantile Asset Management LLP*

## 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 fees.

## PORTFOLIO MANAGERS
Hugh Sergeant, William Lough

## PORTFOLIO & RISK CHARACTERISTICS

| | |
|---|---|
| Number of holdings | 202 |
| Fund Volatility | 14.4% |
| Benchmark Volatility | 12.7% |
| Beta | 1.07 |
| Tracking error | 4.80 |
| Active Money | 81.7% |

## KEY FACTS

| | |
|---|---|
| Fund launch date | 12/08/2016 |
| Share class launch date | 12/08/2016 |
| Benchmark | MSCI All Country World index |
| IA sector | Global |
| Total fund size | £182.0m |
| Domicile | UK |
| Fund type | UK UCITS |
| SEDOL | BZB1R49 |
| ISIN | GB00BZB1R490 |
| Bloomberg | RMGHABA |
| Distribution type | Accumulation |

## FEES & CHARGES

| | |
|---|---|
| Initial charge | Up to 5.25% |
| AMC | 0.75% |
| Ongoing charge (including AMC) | 0.87% |

## 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

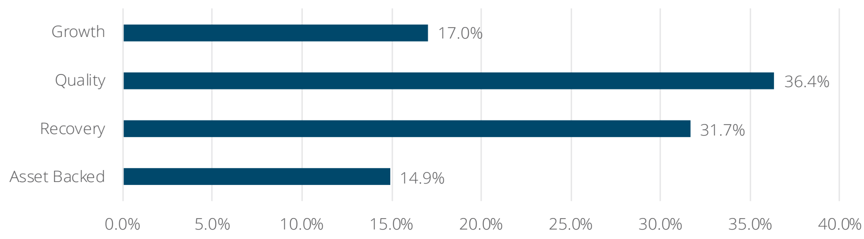
The ten largest positions by weight held in the portfolio.

| | Weight (%) |
|---|---|
| Alphabet class A | 1.9 |
| Sony Corp | 1.4 |
| State Street Corp | 1.4 |
| Meta | 1.2 |
| Citigroup | 1.2 |
| Apple | 1.1 |
| Procter & Gamble | 1.1 |
| Johnson & Johnson | 1.0 |
| JPMorgan Chase | 1.0 |
| Owens Corning | 1.0 |

*Source: River and Mercantile Asset Management LLP*

## CATEGORIES OF POTENTIAL

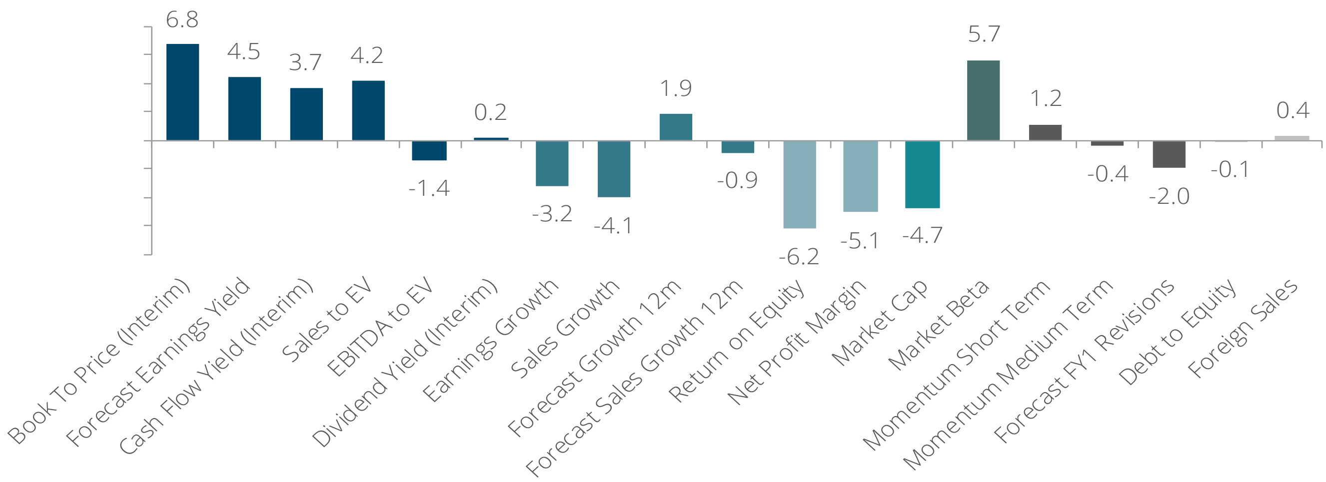
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.




*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*

## 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 |

## MANAGERS' REVIEW

### Investment background

Global equity markets fell (MSCI ACWI -4.9% total return in USD) during an eventful January. There was a shift in momentum, with the equity market leaders in recent years on a regional basis turning into laggards most notably US equities – the S&P 500 returned -5.3% (-11.4% at the intra-day lows on 24 January) while NASDAQ was -9.0% (-16.3% at the lows). This differential within the US itself is telling of the style shift out of longer duration growth equities, particularly those at the more speculative end of the spectrum, as there was a step up in the narrative of the Fed's focus shifting to fighting inflation – market forecasts for the number of Fed hikes in 2022 increased from 3 to 5 – and excess liquidity being drained from financial markets (that is, QE shifting to QT). US 10-year bond yields rose +27bps (+39bps intra-day on 19 January) but 2-year bond yields rose +45bps, meaning the yield curve continued to flatten. Geopolitical risks flared up following the build-up of Russian troops on the Ukraine border. This put additional pressure on near-term commodity inflation (Brent Crude was +17% to rise above $90 per barrel for the first time since 2014).

### Strategy update

#### Performance

The fund fell 2.7%[1] in January versus a fall of 5.6% by its comparator benchmark, the MSCI All Country World Index (GBP)[2].

Specialist social and mobile game developer Zynga was bid for by Take-Two Interactive. We believe the bid is attractive offering $3.50 per share in cash and $6.36 in Take-Two equity versus a $6 share price beforehand. Our Banks exposure (Bank of Ireland, Citi) were beneficiaries of the backdrop of accelerating interest rate hike expectations given positive profit implications. Likewise, a rising oil price naturally provides a supportive backdrop for holdings in the Energy sector (Baker Hughes, Devon Energy). These companies are currently generating very attractive levels of free cash flow. Only material detractor was Allfunds Group, which we view as linked to the market rotation as well as some revenue linkage to lower market levels. Allfunds is among the higher valuation multiple businesses within the portfolio, which is justified by its long runway for structural growth and attractive incremental return on capital.

#### Activity

Korean-listed LG Household & Health Care (LGHH) has an attractive market leading position in the growing 'K-Beauty' sector, as well as offering solid cash generation from its smaller beverages division (~20% of sales). Its shares have materially de-rated since July 2021, falling ~45% (to below March 2020 levels), with its profit multiple now sitting well below its own historic average and at a significant discount to peers with similar or weaker economics. Covid lockdowns and travel restrictions reduced sales in China, and then more recently a pricing dispute with "daigous", who operate as intermediaries, led to further near-term earnings downgrades. We expect both are temporary issues which can be resolved, allowing sales and free cash flow to recover, accompanied by a re-rating. The implied margin of safety is sufficient to look through near-term negative timing elements and so we started to build a position which can be added to as more positive evidence emerges to support the investment case.

We shifted some capital within banks from BNP Paribas, which was sold completely, into Banco Santander. Santander offers more material upside to interest rate increases due to the structure of the Spanish market, which has materially consolidated since the Sovereign Debt Crisis, as well as a recovery opportunity in Brazil. We exited a low conviction holding in Modern Times Group which was poorly timed as it subsequently sold its e-gaming franchise for a price well above market expectations. We sold US toy and game brand owner and manufacturer Mattel following a new flag for a potential UN Global Compact breach from Sustainalytics relating to safety issues on a product recall. Japanese real estate company Daibiru was sold following bid for by its majority owner, Mitsui OSK, at a 50% premium to the resting share price.

### Outlook

Ray Dalio, founder of Bridgewater Associates, wrote that, "In paradigm shifts, most people get caught overextended doing something overly popular and get really hurt." January's markets offered signs that a change in the investing environment is well underway. The increasing cost of money and prospect of tighter liquidity has re-ignited a preference for near-term earnings over the prospects of long-term growth in a sharp rotation that has at times felt indiscriminate. The key debates within equity markets currently appear to be (1) how far is the Fed willing to tighten financial conditions in the face of falling equity markets, i.e. what level is the "Fed put", and (2) will tightening inadvertently create an economic recession, with consumer confidence already under pressure from the increased cost of living via inflation? Our hunch is that the political ramifications of the latter mean that the former may be somewhat lower than some investors would like. Equally, household (and corporate) balance sheets are in good shape meaning demand may hold up better than feared, while many consumer-facing companies' share prices already reflect concerns. This sector therefore offers a microcosm of the risks on both sides of being too definitive in tilting the portfolio aggressively to a particular macro outlook or outcome. Our balance of investments in the portfolio across the company lifecycle means we own companies whose margin of safety is built through some combination of a low starting valuation and future growth. As positioning shakes out, we expect to make money through stock selection in faster growth businesses and those with more mature, cash-cow characteristics but either way our investors should draw comfort that our valuation discipline is designed to avoid the pitfalls that Ray Dalio described. Maintaining this discipline last year hurt relative performance in a sharply rising market but has protected us to the downside more recently. As a recent cartoon we saw says, "How is investing like comedy?" … "Timing".

**Hugh Sergeant & William Lough**
Portfolio Managers
February 2022

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