

# ES River and Mercantile UK EQUITY HIGH ALPHA FUND

CLASS B GBP (Accumulation)

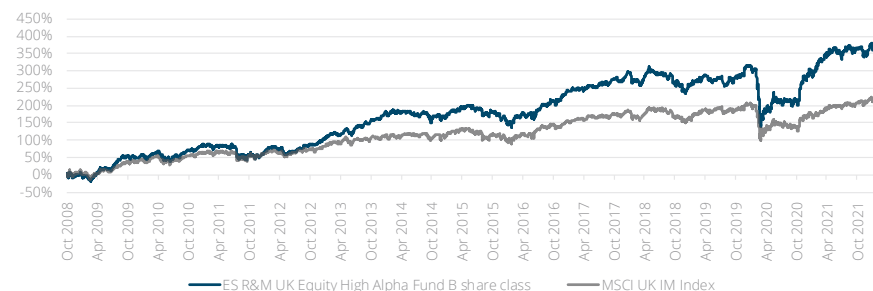
## PAST PERFORMANCE

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 20 October 2008.

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

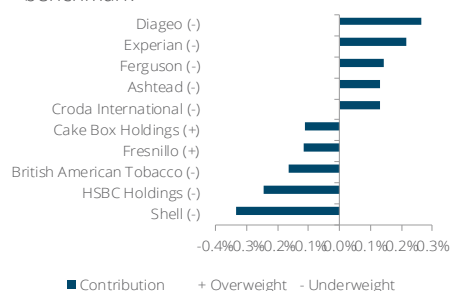
	1 Month %	3 Months %	1 Year %	3 Years %	5 Years %	10 Years %	Since inception %
B share class (Acc)	0.7	0.1	20.7	27.3	36.3	175.9	363.7
MSCI UK IMI	0.1	2.6	19.8	19.0	27.0	96.7	216.5

## 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)	13.4%	-5.6%	9.2%	-3.5%	20.7%
MSCI UK IMI	11.3%	-4.1%	9.8%	-9.5%	19.8%

## TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS

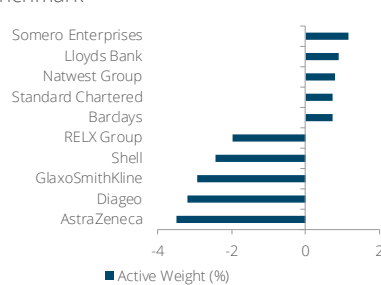
The best and worst contributors to the portfolio's performance relative to the benchmark



Source: River and Mercantile Asset Management LLP

## TOP 5 OVERWEIGHTS & UNDERWEIGHTS

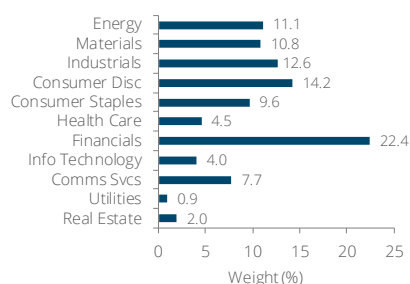
The securities in which the portfolio weight differs most from that of the benchmark



Source: River and Mercantile Asset Management LLP

## 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 (%)
Shell	4.0
BP	3.7
HSBC Holdings	3.2
Unilever	2.8
Lloyds Bank	2.5
AstraZeneca	2.5
Rio Tinto	2.4
Barclays	2.2
Vodafone	2.2
Anglo American	1.9

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 UK Investable Market Index (IMI) Net Total Return (the "Benchmark") over a rolling 5-year period, after the deduction of fees.

## PORTFOLIO MANAGER

Hugh Sergeant

## PORTFOLIO & RISK CHARACTERISTICS

Number of holdings	226
Fund Volatility	16.3%
Benchmark Volatility	13.9%
Beta	1.14
Active Money	52.4%

## KEY FACTS

Fund launch date	28/11/2006
Share class launch date	20/10/2008
Benchmark	MSCI UK Investable Markets index
IA sector	UK All Companies
Total fund size	£97.0m
Domicile	UK
Fund type	UK UCITS
SEDOL	B3D79W3
ISIN	GB00B3D79W34
Bloomberg	RMUKEHG
Distribution type	Accumulation

## FEES & CHARGES

Initial charge	Up to 5.25%
AMC	0.75%
Ongoing charge (including AMC)	0.90%

## 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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## MARKET CAPITALISATION

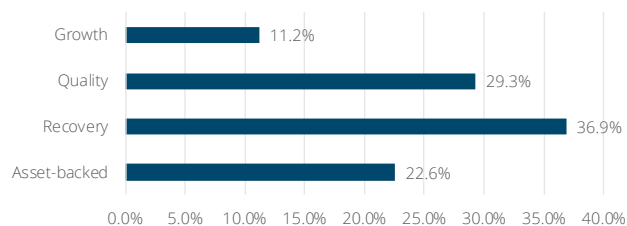
Comparison of portfolio and benchmark weightings across a range of sizes based on company value.

		Fund	Benchmark	Active
Mega Cap	£20bn +	37.3%	61.3%	-24.0%
Large Cap	£4bn - £20bn	17.3%	25.2%	-7.8%
Mid Cap	£2bn - £4bn	6.7%	6.1%	0.6%
Small Cap	£100m - £2bn	34.5%	7.5%	27.1%
Micro Cap	£0m - £100m	4.0%	0.0%	4.0%

Source: River and Mercantile Asset Management LLP

## CATEGORIES OF POTENTIAL

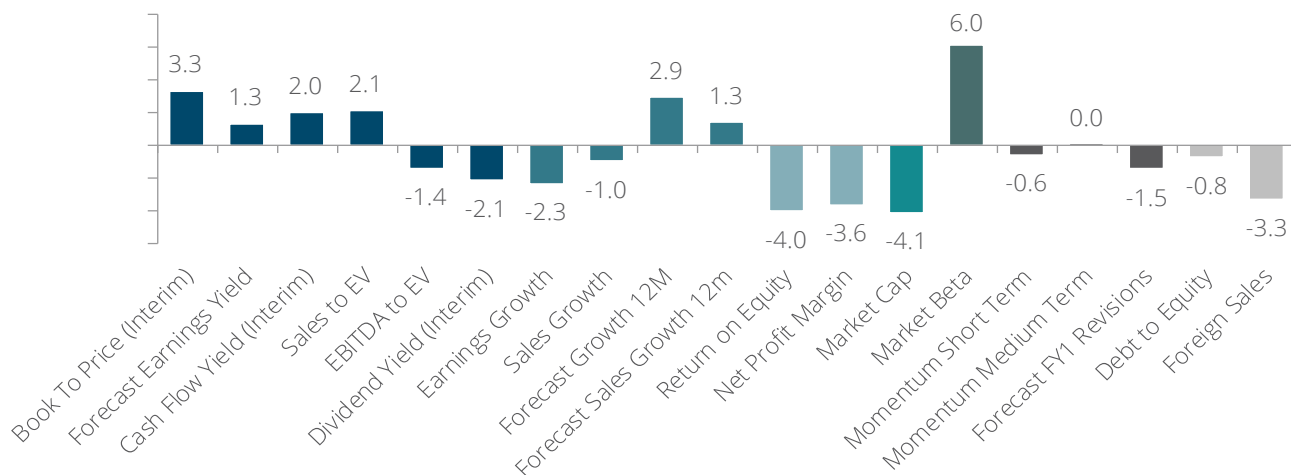
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.



Source: River and Mercantile Asset Management LLP

## 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

## MANAGER'S 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 difference 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 (quantitative easing) shifting to QT (quantitative tightening). US 10-year bond yields rose +27bps (+39bps intra-day on 19 January). 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 started the year robustly, given the context of weak equity markets around the world, rising 0.7%<sup>1</sup> in January versus 0.1% by its comparator benchmark, the MSCI United Kingdom Investable Markets Index<sup>2</sup>. This was a month where even our robust commitment to Value was only just enough to stay ahead of a UK benchmark driven by strong performance from the mega cap Value stocks, in particular the beneficiaries of higher inflation and interest rates, banks and resources stocks. Small cap and UK domestic stocks continued to lag, setting up a rebound as we move through 2022.

Positive contributors during the period included our overweight position in Value (Banks and Energy in particular, including **Standard Chartered** and **Hunting**) and underweight positions in Growth and Quality (**Diageo**, **Experian**, **Ferguson**).

The main negative contributions were our overweight position in smaller companies, which lagged the mega cap stocks. Consumer cyclicals extended the weakness they saw in the second half of 2021 as investors fretted about the 'cost of living crisis' (**Superdry**, **Centaur Media**). Whilst we have aggressively added to our positions in the mega cap Value stocks, we can't really be fully weighted in these whilst running a sensibly diversified and unconstrained portfolio, so we did not have quite enough **Shell** or **HSBC**.

#### Activity

As the rotation to Value started, and global capital seemed for the first time in a while to be interested in UK equities, we felt it was appropriate to increase our exposure to the large cap Value stocks, in particular adding to our bank overweight (**HSBC**, **Standard Chartered**, **Lloyds**), adding to the overweight energy position (**Shell**) and moving overweight telecoms (**Vodafone**) as timing became more supportive. We continued to add to consumer cyclicals and re-opening plays as they failed to participate in the large cap Value

rebound (**Trainline**, **Wetherspoon**).

We took profits in **BHP** following strong performance and as it moved out of the UK benchmark, and also continued to take profits in a number of smaller companies (**Accesso**, **Stagecoach**).

### Outlook

UK equities have been out of fashion but are well suited for the current environment, with low starting valuations – extreme discounts relative to the global benchmarks – and a range of strong, cash generating companies that hook into an environment of solid nominal growth and can protect against the risk of inflation spikes in the short (or longer) term. As ever, our philosophy and process lead us to companies and industries where today's valuations don't accurately reflect the outlook. In several cases within the portfolio, such as **Essentra** or UK domestic banks, we believe this is above all due to a backwards looking period of share price underperformance, which can cause investors to dismiss or not put enough weight on clear evidence that business fundamentals are improving. Finally, we see the chance of a proper investment boom – the first for many years – as reasonably high. The policy mix of strong fiscal and monetary policy which is very supportive (but gradually getting less so) provides ideal conditions, and many companies underinvested during the 'lower-for-longer' 2010s and are running at full capacity. The highest probability of an enduring boom relates to decarbonisation enablers, to which we have exposure via holdings such as **Weir**.



**Hugh Sergeant**  
Portfolio Manager  
February 2022

<sup>1</sup>B share class (GBP), mid-day to mid-day pricing.

<sup>2</sup>Close-of-business to close-of-business pricing.

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