

ES River and Mercantile UK EQUITY INCOME FUND

CLASS B GBP (Income)

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 3 February 2009.

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

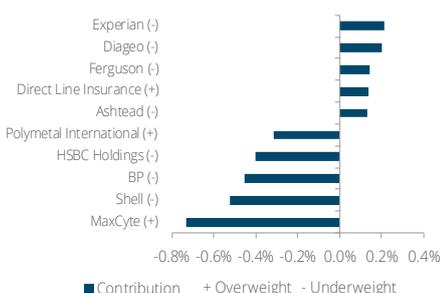
	1 Month %	3 Months %	1 Year %	3 Years %	5 Years %	10 Years %	Since inception %
B share class (Inc)	-1.4	-0.4	12.7	18.9	25.3	119.5	254.7
MSCI UK IM Index	0.1	2.6	19.8	19.0	27.0	96.7	214.4

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 (Inc)	10.4%	-4.5%	6.9%	-1.3%	12.7%
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

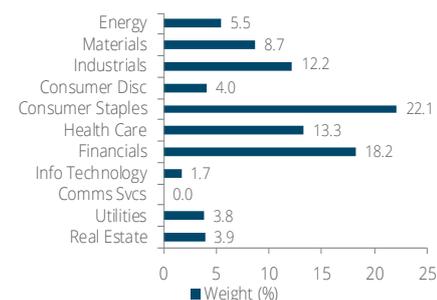
The securities in which the portfolio weight differs most from that of the benchmark



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 (%)
GlaxoSmithKline	4.3
AstraZeneca	4.0
Tesco	3.8
British American Tobacco	3.8
Unilever	3.8
Reckitt Benckiser	3.6
Lloyds Bank	2.8
Shell	2.8
Aviva	2.7
Diversified Energy	2.7

Source: River and Mercantile Asset Management LLP

RIVER AND MERCANTILE

INVESTMENT OBJECTIVE

To generate an average annual income above the dividend yield of the benchmark over a rolling 3-year period and achieve a total return (income and growth in the value of your investments (known as "capital growth")) above the total return of the benchmark over a rolling 5-year period, after the deduction of fees.

PORTFOLIO MANAGER

Daniel Hanbury

YIELD

Historic yield	3.37%
Current yield	3.53%

PORTFOLIO & RISK CHARACTERISTICS

Number of holdings	62
Fund Volatility	12.5%
Benchmark Volatility	13.9%
Beta	0.87
Active Money	62.3%

KEY FACTS

Fund launch date	03/02/2009
Share class launch date	03/02/2009
Benchmark	MSCI UK Investable Markets index
IA sector	UK Equity Income
Total fund size	£107.9m
Domicile	UK
Fund type	UK UCITS
SEDOL	B3KQG44
ISIN	GB00B3KQG447
Bloomberg	RMUKEIB
Distribution type	Income

FEES & CHARGES

Initial charge	Up to 5.25%
AMC	0.75%
Ongoing charge (including AMC)	0.89%

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)



Typically lower rewards ← Higher risk → Typically higher rewards

CONTACT DETAILS

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MARKET CAPITALISATION

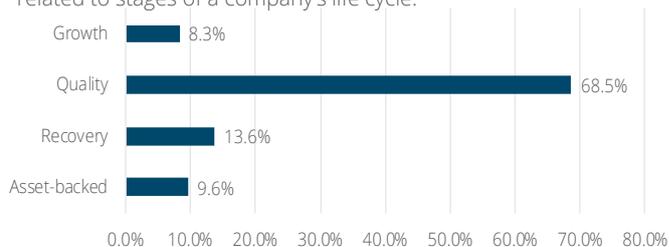
Comparison of portfolio and benchmark weightings across a range of sizes based on company value.

		Fund	Benchmark	Active
Mega Cap	£20bn +	44.3%	61.3%	-17.0%
Large Cap	£4bn - £20bn	18.1%	25.2%	-7.1%
Mid Cap	£2bn - £4bn	8.1%	6.1%	2.0%
Small Cap	£100m - £2bn	22.6%	7.5%	15.1%
Micro Cap	£0m - £100m	0.3%	0.0%	0.3%

Source: River and Mercantile Asset Management LLP

CATEGORIES OF POTENTIAL

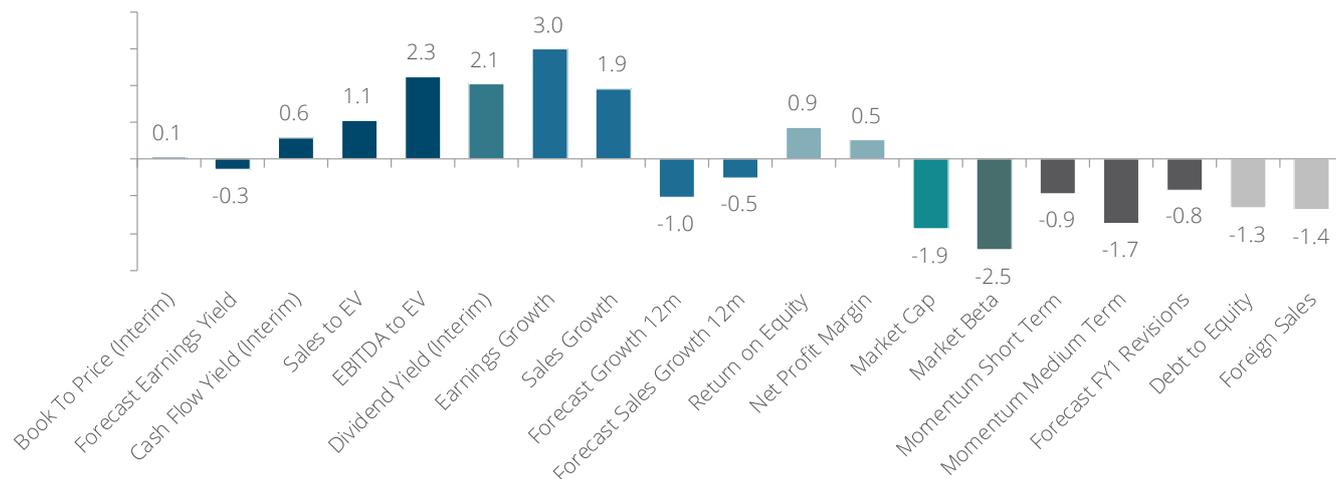
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.



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

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. The UK market fared somewhat better with the MSCI UK IMI Index posting a flat return for the month. 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 -1.4% in the month, behind the benchmark return of 0.1%. Whilst the past year has been a more difficult period for performance, over longer time periods the fund remains ahead of the benchmark and in the 2nd quartile of Income funds with lower volatility and with strong drawdown characteristics.

The market's sharp style rotation drove significant sector dispersion in January (at the extremes: Energy +15.8% versus Tech -12.9%). Our long-standing underweight to Energy was costly as a result, with a material underweight to **Shell** and zero weight to **BP** a ~1 percentage point drag on relative performance. By the same token, **MaxCyte** – the market leader in cell therapy and the strongest contributor to performance in 2021 – was caught up in the de-rating of Growth names. Whilst we do not take underperformance lightly, we are pleased with how the fund held up given the magnitude of the moves. The fund's best performer was motor insurer **Sabre Insurance**, which rose +24% on signs that the pricing cycle has begun to turn in its favour, whilst stock selection within Industrials and Consumer Staples also contributed positively.

Activity

The rotation out of longer duration growth equities – in some cases, indiscriminately – has created opportunities to initiate holdings in a number of high-quality businesses at more compelling levels. We added Quality compounder **Liontrust Asset Management** during the month, which had de-rated to 12x PER from a high-teens multiple due to market volatility. Liontrust's book is diversified across a range of franchises with strong investment performance, supporting a robust organic growth outlook driven by its sustainable fund range, which underpins its high returns profile and c4% dividend yield. We also purchased **Compass Group**, the global contract caterer, as a Quality defensive undergoing a cyclical recovery in a stronger competitive position, with positive trends in volumes and pricing enabling margins to rebound. We exited **B&M European Value Retail**, as our conviction was lowered following a period of strong performance, and sold out of **Biffa** and **3i Group** after strong performance and in favour of more high yield large-cap exposure.

Outlook

We entered 2022 expecting volatility in global equity markets and it quickly arrived, triggered by tightening monetary conditions. We think there is a low probability that rates can be raised more than one or two times as the year progresses despite volatile inflation data affecting the long end of the yield curve. There are clearly risks to both sides so we will continue to run a balanced portfolio that is not overly tilted to a particular macro outlook or outcome.

There are challenges to navigate at the beginning of every year but we remain optimistic that the human ingenuity demonstrated developing effective vaccines over the last 2 years will continue to positively surprise us in the future. Relatively lower starting valuations in the UK stock market provide an attractive environment to blend our Growth, Quality, Recovery and Asset-backed categories. We are encouraged by the rate of dividend recovery, which is outperforming market expectations with respect to both the quantum and number of companies reinstating payouts. We are buying high quality undervalued income stocks, where we believe dividend growth will be stronger and more sustainable than the market believes.

It was recently announced that I shall be leaving River and Mercantile in a few months. It has been a privilege and honour to have worked at R&M over the last 15 years, and it has been such a pleasure to have worked with so many fantastic colleagues, many of whom have become good friends. Stimulating, enriching, intense at times but always fulfilling in building a niche equity focused asset manager. I shall leave with very fond memories and a huge sense of pride of all that we have achieved for our clients over the years, and for the business. Nevertheless all journeys come to an end and it is the right time for me to try something different as well as give an opportunity to our significant internal talent, with their fresh energy and new focus, while the sun is still shining. The next few weeks and months will be all about a smooth transition and ensuring R&M and the PVT team are in the best possible shape moving forward with their exciting new plans under new leadership.

Thank you for all of your support over the years at R&M. With the PVT team, I genuinely believe I am leaving the UK Equity Income Fund portfolio in very good hands.



Dan Hanbury
Portfolio Manager
February 2022

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