

# ES River and Mercantile UK RECOVERY FUND

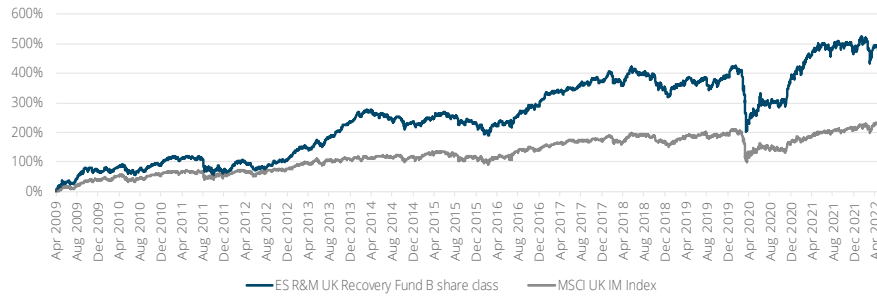
CLASS B GBP (Income)

## 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 1 April 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

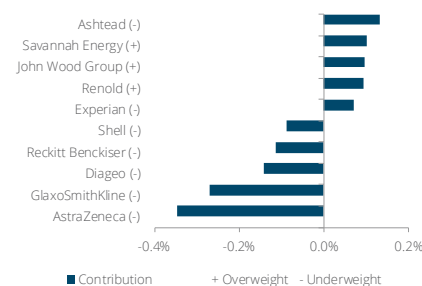
	1 Month %	3 Months %	1 Year %	3 Years %	5 Years %	10 years %	Since inception %
B share class (Inc)	-0.9	-2.9	0.2	20.6	32.5	197.4	483.6
MSCI UK IM Index	0.5	2.1	10.3	12.4	24.9	94.9	226.6

## DISCRETE 12 MONTH PERFORMANCE

	12 months to 30/04/2018	12 months to 30/04/2019	12 months to 30/04/2020	12 months to 30/04/2021	12 months to 30/04/2022
B share class (Inc)	12.7%	-2.5%	-21.6%	53.6%	0.2%
MSCI UK IM index	8.4%	2.5%	-18.0%	24.3%	10.3%

## TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS

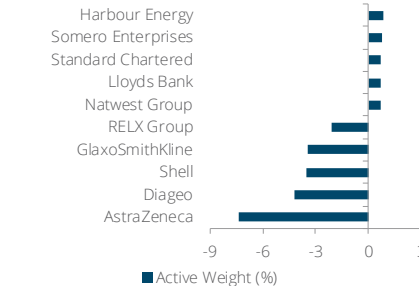
The best and worst contributors to the portfolio's performance relative to the benchmark



Source: River and Mercantile Asset Management LLP

## TOP 5 OVERWEIGHTS & UNDERWEIGHTS

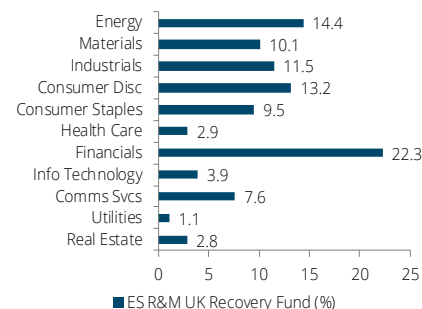
The securities in which the portfolio weight differs most from that of the benchmark



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	3.9
BP	3.9
HSBC Holdings	3.6
Unilever	3.1
Rio Tinto	2.2
Lloyds Bank	2.2
Anglo American	2.1
British American Tobacco	1.9
Vodafone	1.8
Prudential	1.6

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 United Kingdom Investable Market Index (IMI) net total return ("the Benchmark") over a rolling 5-year period, after the deduction of all fees.

## PORTFOLIO MANAGER

Hugh Sergeant

## PORTFOLIO & RISK CHARACTERISTICS

Number of holdings	295
Fund volatility	16.3%
Benchmark volatility	13.7%
Beta	1.14
Active money	57.4%

## KEY FACTS

Fund launch date	17/07/2008
Share class launch date	01/04/2009
Benchmark	MSCI UK Investable Markets index
IA sector	UK All Companies
Total fund size	£236.4m
Domicile	UK
Fund type	UK UCITS
SEDOL	B614J05
ISIN	GB00B614J053
Bloomberg	RMUKEBB
Distribution type	Income

## FEES & CHARGES

Initial charge	Up to 5.25%
AMC	1.00%
Ongoing charge (including AMC)	1.10%

## 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

## MARKET CAPITALISATION

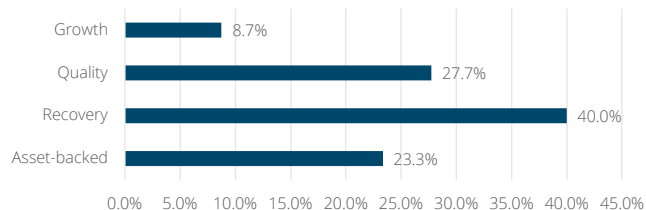
Comparison of portfolio and benchmark weightings across a range of sizes based on company value.

		Fund	Benchmark	Active
Mega Cap	£20bn +	37.1%	64.1%	-27.0%
Large Cap	£4bn - £20bn	17.9%	22.7%	-4.8%
Mid Cap	£2bn - £4bn	6.2%	5.7%	0.4%
Small Cap	£100m - £2bn	32.2%	7.4%	24.8%
Micro Cap	£0m - £100m	5.7%	0.0%	5.7%

Source: River and Mercantile Asset Management LLP

## CATEGORIES OF POTENTIAL

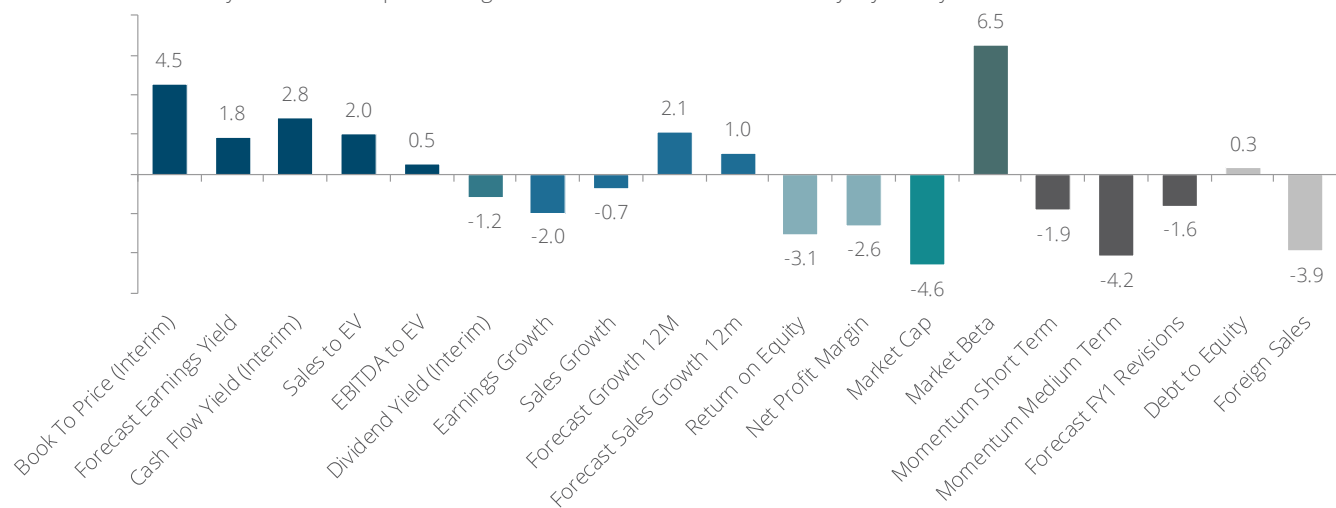
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.



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

**ELITE PROVIDER**  
rated for equities by FundCalibre.com  
2021



**ELITE RATED**  
by FundCalibre.com



## 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

This fund was renamed on 1 July 2018. It was previously known as the R&M UK Equity Long Term Recovery Fund.

## MANAGER'S REVIEW

### Investment background

Global equity markets fell sharply in April (MSCI ACWI -8.0% total return in USD, -3.5% in GBP) and it was a weak month for returns from most financial assets. It was only the fourth month in nearly 50 years that the S&P 500 fell more than 5% and US Treasuries simultaneously returned less than -2%. For US equities it marked the worst 4-month start of year period since 1939 (and third worst on record), while for US 10-year bonds it is the worst total return since 1788, just before George Washington's presidency. Historic indeed. Headline CPI in the US topped 8% for the first time in four decades and repeat 50bps rate hikes from the Fed is now consensual. US real 10Y yields briefly turned positive and their greater than 100bps rise since the start of March has exerted significant pressure on longer duration equities. The US dollar index (DXY) rose +4% to a 20 year high, which was a factor in the weaker performance of oil (Brent -3%) and copper (-7%). UK equities were again relatively resilient, the MSCI United Kingdom IMI actually rising +0.5%.

### Strategy update

#### Performance

We are protecting capital values reasonably well during this difficult period. The Value factor is more supportive than it has been, though smaller companies and recovery cyclicals continue to act as a drag as they are higher beta during this period of risk aversion.

The fund returned -0.9%<sup>1</sup> in April versus 0.5% by its comparator benchmark, the MSCI United Kingdom Investable Markets Index<sup>2</sup>. Defensive large cap stocks were strong, economically sensitive stocks (apart from energy) were weak, led by consumer cyclicals and UK domestic stocks.

Positive contributors during the month included our overweight position in Energy (**Savannah**) and Corporate Activity (**Schroder NVs**).

The main negative contributions were our underweight positions in some of the large cap growth defensives, including **AstraZeneca** and **Diageo**. Consumer cyclicals (**Restaurant Group**) further extended the weakness they have seen over the last 12 months.

#### Activity

Our activity is focused on trying to exploit the even larger PVT anomalies that are appearing as the market becomes very risk averse. For example below, Close Brothers is a lender and wealth manager that has always achieved an attractive and only modestly volatile return on equity; it has been around a long time and understands business and credit cycles; it has never been cheaper on a simple price to book basis, not even during the GFC (global financial crisis).



Source: Bloomberg

I am becoming really quite interested in Real Estate stocks, starting with the UK but also looking for opportunities elsewhere. They have sold off quite aggressively during the latest bout of big picture worries. This has left stocks such as **British Land** and **Capital & Counties** trading at material discounts to NAV despite their strong inflation hedge credentials and their robust recent fundamentals. London seems to be back to its vibrant and busy self, with strong foot fall and activity, positive for both these property companies which nevertheless have seen their share prices fall significantly. We have been adding.

Within our international portfolio we added **AT&T**, as we continue to build our exposure to Telecoms, a value defensive sector with individual stock catalysts, in this case their simplification of the business after they spin-off their WarnerMedia assets.

We sold part of our recently purchased holding in **Schroders Nil Voting** shares as the Board moved to enfranchise the shares, providing a respectable value uplift.

### Outlook

As I have articulated in my recent quarterly report, the big picture is confusing for most investors at the moment, so for me the current focus is the huge bottom-up stock picking opportunities, where this portfolio and indeed all three portfolios that I run are extremely lowly priced (following the weak April, my portfolios trade on less than 10x price to earnings and 1x sales) and have strong medium term shareholder value growth potential and strong balance sheets. The majority of shares that I own in my portfolios (there are quite a few!) trade at, or close to, their ten-year low valuations of profits, cash flow or assets.

In the short term it is difficult to say; perhaps the current fearful consensus is right and stagflation impacts and economic uncertainty will prevent these great value shares from rising in price; or perhaps the worries are consensual enough, having created such deeply discounted share prices for consumer and industrial cyclicals (for example) that any abating of stagflationary fears will lead to a quick shift in the narrative that will allow our lowly valued stocks to rebound vigorously. Probably a peaking in shorter term inflation indicators are required for beaten up shares to start to recover.

Meanwhile our key factors, Value, Recovery, Multi-Cap, out-of-favour Growth and value based regional allocation are all at, or close to, the low point of their cycles and all of the above should, in time, perform well in the more reflationary world we find ourselves in.

**Hugh Sergeant**  
Portfolio Manager  
May 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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