PORTFOLIO MANAGER'S REPORT

The portfolio manager of the Company is George Ensor. George graduated from Bristol University with an Upper Second Class degree in Chemistry in 2008, before joining Smith & Williamson Investment Management as a graduate trainee where he worked for five years as an analyst and Private Client Investment Manager. George joined River and Mercantile Asset Management LLP in March 2014 as a UK equity analyst. George is a CFA charter holder.

This Portfolio Manager's Report is compiled with reference to the investment portfolio. Therefore, all positions are calculated by reference to their official closing prices (as opposed to the closing bid prices basis within the financial statements). The estimated NAV referenced below is calculated on a daily basis utilising closing bid prices and is inclusive of all estimated charges and accruals.

REVIEW OF PERFORMANCE

We have delivered a year of strong absolute and relative performance with the NAV per share closing the period at 328.3p, just below the high of 332p recorded in August 2021. For the twelve month period to the end of September 2021, the NAV increased by 59.5%, outperforming the benchmark, which gained 45.7%, by 13.8%.

The long-term performance, net of all fees, remains strong. Since inception, the NAV has increased 235%, outperforming the benchmark performance of 94.3% by 140.7%.

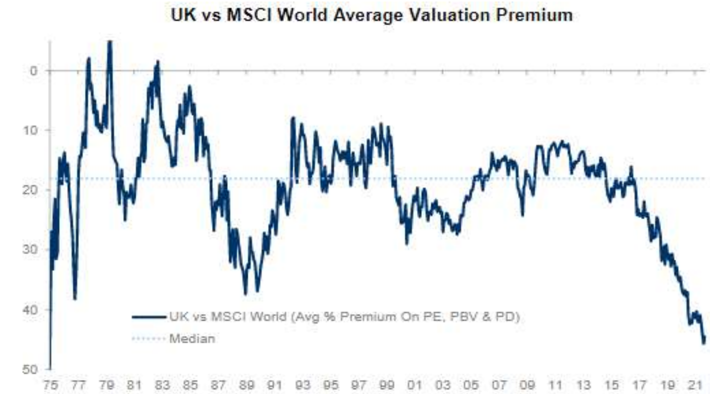
Period	NAV	Benchmark	Active return
6 months	14.5%	9.1%	5.4%
12 months	59.5%	45.7%	13.8%
3 years p.a.	12.7%	9.5%	3.3%
5 years p.a.	24.9%	13.2%	11.7%
Since inception p.a.	19.3%	10.2%	9.1%

Source: River and Mercantile Asset Management LLP,BNP Paribas, Bloomberg Performance to 30 September 2021.Since inception is 02 December 2014,'Benchmark:Numis Smaller Companies plus AIM (Excluding Investment Companies).

MARKET BACKDROP

The twelve months to September 2021 have been dominated by recovery with many economies approaching pre-pandemic levels of GDP. Markets recovered and then exceeded prior peaks. Central Banks have moved from their ultra-supportive position of the last 18 months to begin to signal tighter monetary conditions. Inflation is back as a major force influencing policymakers and markets with year-on-year inflation being impacted by a combination of soft prior year comparisons, strong demand recovery in a just-in-time economy which is incurring supply-side bottlenecks and, more recently, demand-pull inflation that is driving wage growth and further demand. This leaves central bankers walking a bit of a tightrope – tighten too early and they will risk suffocating growth. But hoping for higher prices being the solution to higher prices leaves them vulnerable to concerns that they are behind the curve and the consequences that has for consumer spending power.

UK assets remain firmly in the unloved box with the UK equity market amongst one of the cheapest in the world and Sterling continuing to trade at the discount that opened before and after the Brexit referendum. The chart overleaf shows the discount that the UK market trades on relative to the MSCI World Index (of which approx. two thirds is the US market). The chart shows a composite of three valuation measures (Price to Book, Price to Earnings and Dividend Yield) and shows the average discount that the UK has traded at for the last 46 years is c.18%. This compares to the current discount of c.45%. This is an attractive starting point and goes some way to explaining why we have seen so much M&A activity in the UK this year.



Sources: MSCI, IBES, Morgan Stanley Research Note: Average relative valuations use 12M forward data where available (forward P/E data starts in 1987) and trailing data where forward P/E not available.

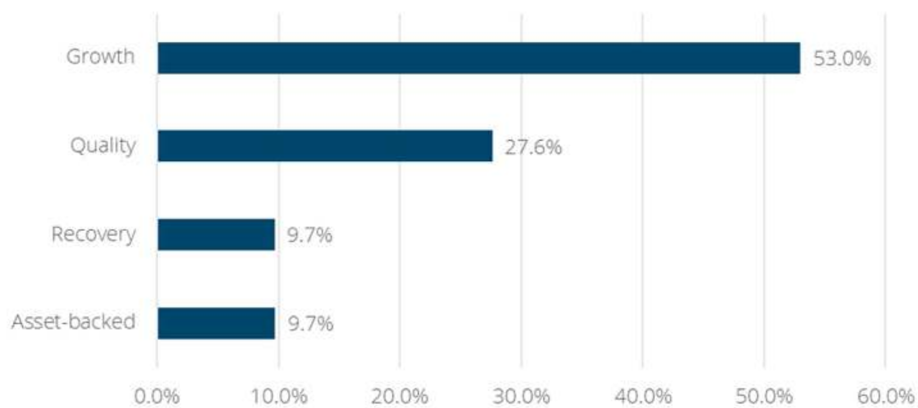
PORTFOLIO POSITIONING

Our investment philosophy is a multi-factor approach combining company fundamentals, valuation and momentum. We are looking to invest in companies that have the **P**otential to create shareholder value at attractive **V**aluations with supportive **T**iming.

Investors will be aware that within our **PVT** Philosophy there are four categories of Potential: *Growth, Quality*, *Recovery* and *Asset-backed*. The portfolio continues to have a bias to *Growth*; that is investing in companies that have the potential to grow revenues and profits at a higher rate than average. *Quality*, companies that have high and improving return on capital, remains the second largest category.

Recovery and Asset-backed opportunities, and cash, make up the balance of the portfolio. When we invest in *Recovery* stocks, we are looking to buy into companies where returns are depressed when compared to the last ten years but have begun to improve. And with *Asset-backed*, confidence in the value of the assets is key and we look for asset value upgrades to drive the share price performance. The exposure to different categories as at 30 September 2021 is shown below.

Category exposure, on an ex-cash basis, was similar to that reported in September 2020 with 53.0% invested in *Growth* (54.0% Sept 2020), 27.6% invested in *Quality* (25.0%), 9.7% in *Recovery* (9.0%) and 9.7% (12.0%) in *Asset-backed.*



Source: River and Mercantile Asset Management LLP

SUSTAINABILITY

"A sustainable business compounds value for all stakeholders over the long term. It is a responsible steward of capital with a culture of longevity. We evaluate sustainability through the pillars of People, Innovation and the Environment, including companies undergoing change leading to positive long-term outcomes."

I introduced our approach to integrating sustainability analysis into our verification process in the equivalent report in the interim results. We are strong believers that the best way to drive change is to play a part; the world's challenges are not going to be solved through broad exclusion policies. We have a great opportunity to influence the environmental, social and governance ("ESG") agendas of the companies we invest in given the material ownership stakes that we take.

We also do not believe that you can outsource sustainability analysis, certainly not in the universe that we invest in. We complete fundamental sustainability analysis alongside our more conventional shareholder premised fundamental research and award companies with a sustainability rating ranging from winners (S1) to companies that have significant sustainability concerns with no obvious route to improvement (S4) which we will not invest in.

Our process enables us to fully understand the material sustainability risks and opportunities, which is a consideration in our investment decision and the scoring helps to guide portfolio construction whilst also providing transparency for clients. At the end of the period, on an ex-cash basis, 27% of the portfolio was invested in companies with an S1 rating, 64% in S2 rated businesses with the balance, 9%, invested in S3s. There are no S4 rated companies in the portfolio.

As at the end of the period, we owned four S3 rated companies, these are the companies where we are aiming to focus our engagement efforts with the ambition of driving improvement for the benefit of all stakeholders, including shareholders. A little detail on each of these companies and our engagement efforts follow:

City Pub Group – an owner and operator of a portfolio of pubs in the South of England was scored S3 on the back of a lack of disclosure around our People (Customers and Staff) and Environment (no emissions disclosure or net zero target) pillars. We also identified a lack of diversity and independence at the board level. We were pleased to see the appointment of Emma Fox as an independent NED who has since been appointed chair of the recently created ESG committee. Disclosure has also improved with Scope 1,2 and 3 emissions included in the latest annual report. On reflection, this is now a candidate to be reviewed and potentially moved to an S2 rating.

Capital Limited – is a business that provides drilling services to gold mining companies in Africa. The company has a strong employee safety track record which is critical. However, there is no disclosure around the environmental impact of the company. There are also some corporate governance concerns, for example the company is led by an executive chairman. We engaged with the company in May and they have committed to include a Sustainability Report including emissions data in the next annual report. The company is also investigating ways to reduce their carbon intensity, including the use of hydrogen to reduce the diesel fuel intensity of their fleet.

Argentex – an FX broking business disintermediating the traditional bank offering with high service levels. The investment case is premised on a growing and maturing sales team – a people business – and so our sustainability analysis therefore focused on the employees. It is difficult to judge the culture of a company from the outside, so we look for companies to release employee engagement and churn data and insight on diversity and inclusion. Unfortunately, none of this data has been made available to investors and so we cannot judge either the status or the direction of travel (improving or deteriorating); hence the S3 rating. We engaged with the company in June and are hopeful of improved disclosure with the next annual report.

Serabi Gold – a Brazilian Gold exploration and production company. Gold companies are interesting businesses to consider under the lens of sustainability. An understandable opinion would be that these companies are having a relatively significant environmental impact for a commodity that has little practical use. However, they do provide both direct and indirect employment in economies which often lack opportunities. They also make significant royalty and tax payments to local and national governments. Both gold miners that we own are predominantly underground miners where the environmental and ecological impacts are less significant but where employee health and safety risks are higher. Unfortunately, there was an accident at Serabi's mine in March which resulted in an employee being fatally injured. There has also been a recent investigation into relatively small but apparently fraudulent cash withdrawals which clearly leaves some governance questions. We are looking to engage with the company at our next meeting.

PORTFOLIO ATTRIBUTION: HOLDINGS WITH A CONTRIBUTION TO RELATIVE RETURN OF GREATER THAN +/- 1.5ppts (percentage points).

Positive Contributors:

MaxCyte: +5 ppts: MaxCyte was, for the second year running, the most material contributor to performance. We ran the position with high conviction and the share price performance in the period was exceptional (+174%). This was in part due to continued operational delivery by the company which is positioning itself as the gold standard partner for cell therapy companies. The share price performance was clearly also aided by the introduction to the Nasdaq exchange in the US. We saw this as a key catalyst for the shares and have since taken profits to move to a lower conviction position (2% position at the end of the period).

Joules: +2 ppts: We originally invested in Joules in April 2020 as the company needed to raise capital given the impact to the business from the pandemic. The business has since delivered exceptional growth in its eCommerce business and, more recently, has successfully re-opened its bricks and mortar estate. We purchased the business on a cheap valuation and have benefitted from both the recovery in earnings and the valuation re-rating which delivered a share price gain in the period of 120%.

Allergy Therapeutics: +1.9 ppts: Whilst there are obvious differences – one has a focus in cell therapy and the other in allergy vaccines – both Allergy and MaxCyte were business that have, for many years, delivered strong operational improvement supported by innovative R&D. However, the market dismissed each as loss making biotech stocks and left them trading on depressed valuations (and us holding positions with large unrealised losses). Like it did for MaxCyte, sentiment towards Allergy has flipped in the last 18 months. The last stock we purchased was at 7.6p in March 2020 - the share price was 37.5p at the end of September, up 144% from September 2020.

Science in Sport: +1.8 ppts: a leading sports nutrition brand, Science in Sport has delivered strong results and appears undervalued versus transactions for similar businesses. The shares gained 109% in the year and was our highest conviction position at the end of the period. Whilst net profit is depressed given the investment into driving the top line, the company is now profitable with a track record of strong top line growth and an improving gross margin.

City Pub Group: +1.7 ppts: as the owner and operator of 50 pubs, City Pub Group has seen a period of extremely depressed profitability. Trading has recovered since the removal of trading restrictions and, having been through a period of consolidation via the disposal of poorly performing sites, the company is once again investing in new sites and acquisitions. Significant costs savings have also been delivered meaning that run rate profitability should exceed pre-pandemic levels. The shares gained 101% over the twelve-month period.

Sylvania Platinum: +1.7 ppts: the producer of platinum group metals (PGMs) from chrome tailings delivered a gain of 100% in the period to the point of sale, which was completed in April, on the back of strong PGM prices. We saw strong gains in the metal prices with the rhodium price particularly strong, gaining 75% (according to the Johnson Matthey Rhodium Price index) from the start of the year to the high in March. Ultimately, Sylvania Platinum's profitability became very geared to that one price which was a key factor in our decision to exit.

Boku: +1.7 ppts: a position held since the company's IPO in November 2017 and a great long-term performer for us. Boku delivered several upgrades given the strength of the performance in the core direct carrier billing business where they partner with some of the largest eCommerce businesses in the world to enable seamless payments. The shares have been re-rated, gaining 114%, and we reacted to the higher valuation by taking profits.
Ince Group: +1.6 ppts: an unfortunately timed original purchase in early 2020, Ince was, as a recovery thesis with high financial leverage, a significant underperformer in the period from purchase to September 2020. We have since seen a recovery in the share price as the business has delivered positive cash generation and paid down debt. This is reflected in the share price gain, from an extremely depressed level, of 148% in the period with the shares remaining firmly in the value camp at the end of the period.

Detractors:

Venture Life: -2.9 ppts: one of the standout performers of the prior year with the shares gaining 159%, Venture Life shares fell 44% in the twelve months to September 2021. The company is executing a buy and build strategy of selfcare brands and has executed on two additional acquisitions in the period. The key issue has been disappointing trading in two areas which resulted in expectations for this year and next year being reduced. Hand sanitiser gel sales, under their brand DisinPlus, have deteriorated faster than expected and sales of their two mouthwash products into China have disappointed. Whilst the latter is more material than the former, neither are critical to the success of the business.

Shanta Gold: -2 ppts: another top performer from the prior year when the shares delivered a gain of 109%, Shanta has executed well on many of the key growth drivers, namely the expansion of the business from a single site, single country operator to a mid-tier, multi-site operator across two countries (Kenya and Tanzania). However, Shanta's long track record of meeting guidance came to an end as underground grades at their existing asset were lower than expected and production guidance for the year was reduced. The shares lost 26% in the period.

Argentex: -1.8 ppts: Argentex has compounded high organic revenue growth, margins and return on capital since (and before) they listed in 2019 which are attributes we look for in both our Quality and Growth categories. However, the revenue growth has failed to deliver to expectations and the margin, whilst high, has been falling given the investment in costs, mainly people and premises, through the pandemic. Revenue expectations were reduced in July which contributed to, alongside the sale of the ex-Co-CEO's equity stake, a decline of 29% in the period.

SDX Energy: -1.5 ppts: SDX is, in my opinion, one of the most undervalued companies in the portfolio. The shares trade at a substantial discount to the core net asset value (allowing for just the production assets and excluding any development or exploration assets). In my opinion, the attractive attributes of low costs of exploration, development and production and fixed price contracts covering much of the production are in no way reflected in the current valuation. Disappointing news on their latest high impact exploration well was the catalyst for the most recent drop in the share price with the shares losing 31% in the period.

PORTFOLIO ACTIVITY – NEW POSITIONS AND EXITS

I am going to focus on the portfolio changes that have been made in the second half of the year ended 30 September 2021.

Details of the changes made in the first six months can be found in the Half-Yearly Financial Report for the six months ended 31 March 2021 and include (in order of portfolio weight at the end of the period): **ActiveOps** (2.6%), **Supreme** (2.6%), **Distribution Finance Capital** (2%) and **Virgin Wine** (1.2%). We continued to build our positions in Supreme and DF Capital in the period and added to Virgin Wine post period end.

CMO Group (1.9%): approximately 10% of the very large building merchant market is transacted online and only 4% of this by businesses that are exclusively online operators. CMO is the largest of these, representing approximately a quarter of the pure play online value. This is a market that is vulnerable, like so many that have gone before it, to disruption by online players. Category expertise and vast range enables users to be acquired cheaply online and the drop-ship model leaves fulfilment with the ultimate supplier. The stock was purchased at IPO and is held as a Growth thesis, supported by the 30% compound annual revenue growth that the company has delivered over the last four years.

LendInvest (1.52%): is a fintech business that is looking to take share in both the UK buy-to-let and specialist homeowner mortgage markets. As opposed to owning the mortgages like a conventional lender, LendInvest places the mortgages with institutional owners in exchange for an origination. I've somewhat simplified the business model

here as there are several different funding structures, but you can see how this approach would be less capital intensive than a traditional lender. The company has set itself some ambitious targets, doubling platform revenue and growing EBITDA by 3-5x, and will deliver great shareholder value creation if it delivers to them. We also purchased this position through the IPO and the stock is also owned under a Growth thesis.
eEnergy (1.1%): an energy consultancy business which helps small and medium sized enterprises reduce their energy requirements by identifying wastage and implementing more energy efficient solutions and procuring green energy. The core business provides a solution to schools to convert to more efficient LED lighting and in-doing so reduce their energy costs. The company has since acquired additional services to broaden the offering and client base. We invested at the most recent placing which was undertaken to acquire UtilityTeam.

Exits:

Given the timing of the two capital returns (January 2021 and May 2021), most disposals were made in the first six months which, again, are detailed in the interim report. In summary, **DX Group** was exited as we felt that the recovery thesis had largely played out and did not see it transitioning to either a Quality or Growth thesis. **Adept Technology, Harvest Minerals, STM Group, Tekmar** and **Hummingbird Resources** were all exited to fund the fourth return of capital. **Sylvania Platinum** was exited given concerns over the gearing to the rhodium price with the proceeds being used in the second capital return.

M&A also played a role with **AFH Financial, Cambria Automobiles** and **Sigma Capital** being taken private.

OUTLOOK:

The outlook statement is always the hardest – by definition I need to be writing about the future and not reporting on the past, and I am something of a cynic when it comes to my/our ability to predict the future[1]. We believe in cycles and spend time trying to objectively analyse and debate where we stand in the current cycle. It will come as no surprise given the performance of equity markets that this cycle has evolved passed the early cycle recovery stage, so we are cognisant of this in the portfolio's overall style and factor exposures.

We have no shortage of exciting growth themes in the portfolio - from the disintermediation of conventional banks by fintech to the disruption of commerce by direct-to-consumer retailers and acquisitive buy and build strategies that are using their public equity to accelerate growth through M&A. And we are always on the look out for new ones, de-carbonisation and the green revolution being an obvious candidate. However, it is important that we manage risk which comes in many forms but is amplified when stocks are either very early stage and so unproven and/or loss making or when the current valuation reflects a high degree of confidence in the seamless delivery of ambitious expectations going out many years. This is why our valuation discipline is critical.

The long-term outperformance versus both the UK smaller companies benchmark and the wider UK market evidences the fantastic opportunity in micro caps and the proven approach the team employs. We will continue to execute to the strategy put in place at the company's IPO; namely investing with conviction in a part of the market which is often overlooked by investors and has greater scope for growth.

Thank you for your continued support.

George Ensor
Portfolio Manager

9 December 2021

[1]: For anyone interested in this subject I would recommend Superforecasting – The Art and Science of Prediction by Philip Tetlock