

River and Mercantile UK MICRO CAP INVESTMENT COMPANY



PAST PERFORMANCE

The chart and table below show the performance of the Company since its launch on 2 December 2014.

Source: River and Mercantile Asset Management LLP, BNP Paribas, Bloomberg.

Note: NAV data is based on daily unaudited estimations.

Past performance is not a reliable guide to future results.

PERFORMANCE SINCE INCEPTION



CUMULATIVE PERFORMANCE

	1 month %	3 months %	YTD %	Since inception %
NAV	-2.9	-15.6	-30.7	112.0
Share Price	-6.8	-22.9	-36.7	68.4
Benchmark	4.8	-6.6	-17.7	60.2

TOP 10 CONTRIBUTORS TO RETURN

The greatest contributors to the portfolio's performance relative to the benchmark

	Relative contribution to return
ActiveOps	0.4%
Kooth	-0.4%
Keystone Law	-0.5%
Manolete Partners	-0.5%
Litigation Capital Mgmt	-0.5%
Allergy Therapeutics	-0.6%
Instem	-0.6%
Supreme	-0.7%
CMO Group	-0.9%
Science In Sport	-1.6%

Source: River and Mercantile Asset Management LLP

TOP 10 HOLDINGS

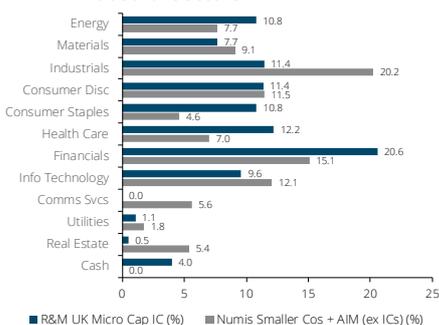
The ten largest positions by weight held in the portfolio.

	Weight
Capital Limited	5.6%
Instem	5.2%
ActiveOps	4.2%
Allergy Therapeutics	4.0%
Mind Gym	3.6%
Litigation Capital Mgmt	3.6%
Sigmaroc	3.3%
Manolete Partners	3.3%
Keystone Law	3.2%
Science In Sport	3.2%

Source: River and Mercantile Asset Management LLP

SECTOR WEIGHTS

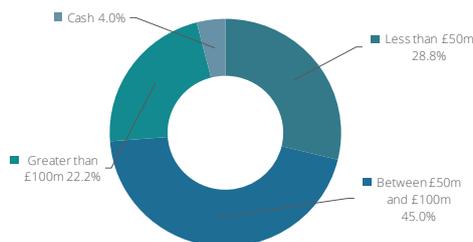
Portfolio weightings within specific industrial sectors.



Source: River and Mercantile Asset Management LLP

ALLOCATION BY FREE FLOAT MARKET CAPITALISATION

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



Source: Bloomberg

INVESTMENT OBJECTIVE

The Company will aim to achieve long-term capital growth from investment in a diversified portfolio of UK micro cap companies, typically comprising companies with a free float market capitalisation of less than £100 million at the time of purchase.

PORTFOLIO MANAGER

George Ensor

KEY FACTS

Company launch date	02/12/2014
Benchmark	Numis Smaller Companies + AIM (ex ICs) Index
Estimated NAV	£70.4m
Number of holdings	42
Domicile	UK
SEDOL	BNDMJ1P
ISIN	GG00BNDMJ1P1
Ticker	RMMC LN

FEES & CHARGES

AMC	0.75%
Performance fee	15% of outperformance

CONTACT DETAILS

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PORTFOLIO STYLE SKYLINE

This chart shows the Style Tilts of the portfolio against the benchmark as calculated by StyleAnalytics.



Source: StyleAnalytics

MANAGER'S REVIEW

The Company's NAV per share declined from 214p at the end of June to 207.8p at the end of July, a decline of 2.9%, underperforming the benchmark performance, a gain of 4.8%, by 7.7%. The market rally seems to have been a response to both the potential (short term) peak in the rate of year-on-year price inflation and extremely bearish investor sentiment. The US 10-year bond yield has rolled from a high of 3.5% in June to 2.6% at the time of writing, supporting equity valuations in general and longer duration equities in particular. On a rolling twelve-month basis, the NAV performance is 20.1% behind the benchmark performance. Smaller Companies outperformed the wider UK market by 0.6% in July but remain 23.3% behind on a rolling twelve-month basis.

We saw a bounce in some of our oversold Growth names: **ActiveOps** (+16%), **Alpha FX** (+18%) and **MaxCyte** (+16%, 0.2ppts). Both **ActiveOps** and **AlphaFX** provided supportive trading updates in the month. Whilst gold was down 2.3%, two of our gold positions – **Shanta Gold** (+16.5%) and our largest position **Capital** (+10%) – also provided strong updates to the market. **SigmaRoc**, a Northern European construction materials business executing a successful buy and build strategy, rallied post their update at the end of the month, gaining 12% over the month.

Science in Sport has been a top conviction position for us and having been weak into the update, the shares fell a further 31% in the month as the company updated that revenue would be lower and costs higher than expected. The investment case is premised on the strength of the brand – anyone watching either the Lionesses at Wembley or the tennis at Wimbledon will have seen the company's product – but this is a tough environment to be building a brand in and loss-making growth stocks are firmly out of favour.

Whilst **Supreme's** (-20%, 0.5ppt impact) vaping business remains the key value driver, an excess of lighting inventory following post pandemic overstocking has driven an EBITDA downgrade of 18%. **CMO** (-65%), the largest online only retailer of building materials serving trade and DIY customers, has - like peers - seen a slowdown in demand and is now guiding to profits being flat year on year. The company IPO'd last year with a market cap of £95m and currently, despite a net cash balance sheet, has a market cap of £22m. A similar story could be told for **Kooth** (-26%), the leading provider of digital mental health services to children and young people in the UK – the shares have fallen 68% since their high in September 2022. Whilst the transition within the NHS to a new planning structure (CCGs (clinical commissioning groups) to ICSs (integrated care systems)) has delayed new wins to the second half, the de-rating from in excess of 6x Sales to 1.6x Sales seems harsh.

We initiated a new position in **IOG** – a company that is building a Southern North Sea gas production business premised on the ownership of the Saturn Banks pipeline. First gas was delivered earlier this year and further development and appraisal work should see production grow over the next few years. The company is generating a large percentage of its market cap in free cash at current forward prices, but the business case has been built on a much lower gas price assumption. The company is one of the least carbon intensive oil and gas businesses with a carbon intensity (Kg CO₂e / Boe) which is approximately a twentieth of the average for the North Sea. There is also a very clear case for domestically produced gas over imported LNG (liquefied natural gas) and, as we are increasingly aware, gas is going to play a critical role in enabling us to use less coal whilst keeping a stable

(non-intermittent) baseload of power generation. We also topped up positions in **Capital**, **CMO**, **GetBusy**, **Kooth** and **SigmaRoc**. We raised capital from profit taking in **Instem**, reducing our position in **SDX Energy** at a premium to where we added post the bid from **Tenaz Energy** and from exiting **Ince Group** who announced a highly dilutive equity raise.

As we commented previously, there is evidence supporting the case for the easing of inflationary pressures – in the short term at least – driven by the impact of higher rate expectations, the natural impact on demand from higher prices and the gradual resolution of supply side constraints. This dynamic has catalysed a peak inflation trade as markets lows have historically coincided with peak inflation and an expectation of a "Fed pivot" to a less hawkish stance. It is impossible to know if we have already seen peak rates for this tightening cycle or if another round of rate increases need to be priced in – time will tell.

Markets are moving quickly – we could pick any number of charts to illustrate that point but the US 10-year yield is a good example. The saying about "time not timing being the key to wealth accumulation" is the first thing that springs to mind (and small caps are a fantastic place to compound long term wealth creation).

We remain dedicated to our strategy of building a high conviction portfolio exploiting investment opportunities in a part of the market that, in general, has greater scope for growth and is often overlooked by larger funds and the stockbroking community.

George Ensor
Portfolio Manager
August 2022

ABOUT THE COMPANY

River and Mercantile UK Micro Cap Investment Company Limited is a closed-ended investment company limited by shares, registered and incorporated in Guernsey under the Companies Law on 2 October 2014, with registered number 59106. It is regulated in Guernsey by the Guernsey Financial Services Commission (GFSC).

The Company is a non-cellular investment company and has been declared by the GFSC to be a registered closed-ended collective investment scheme. The manager of the Company is Carne Global AIFM Solutions (C.I.) Limited (the "Manager"), which has delegated portfolio management to River and Mercantile Asset Management LLP (the "Portfolio Manager"). However, the Board will actively and continuously supervise both the Manager and the Portfolio Manager in the performance of their respective functions.

The Company's investment objective is to achieve long term capital growth from investment in a diversified portfolio of UK Micro Cap Companies, typically comprising companies with a free float market capitalisation of less than £100m at the time of purchase.

Carne Global AIFM Solutions (C.I.) Ltd has been appointed as Manager to the fund under the terms of the AIFM Agreement.

Carne Global AIFM Solutions (C.I.) Ltd is a Jersey incorporated company specialising in the provision of AIFM Management Company Services and is regulated by the Jersey Financial Services Commission for the conduct of Fund Services Business. The company was incorporated on the 21 July 2014 and is 100% owned by the ultimate parent company being Carne Cayman Limited, a privately owned company incorporated in the Cayman Islands.

MANAGER

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