

ES River and Mercantile UK DYNAMIC EQUITY 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 21 November 2012.

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

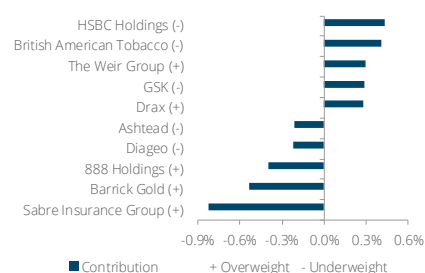
	1 Month %	3 Months %	1 Year %	3 Years %	5 Years %	Since inception %
B share class (Acc)	4.1	-2.9	-5.4	6.9	8.3	109.1
MSCI UK IM Index	4.3	-0.9	7.4	8.8	20.0	87.7

DISCRETE 12 MONTH PERFORMANCE

	12 months to 31/07/2018	12 months to 31/07/2019	12 months to 31/07/2020	12 months to 31/07/2021	12 months to 31/07/2022
B share class (Acc)	5.3%	-3.8%	-9.6%	25.0%	-5.4%
MSCI UK IM index	9.2%	1.0%	-19.7%	26.1%	7.4%

TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS

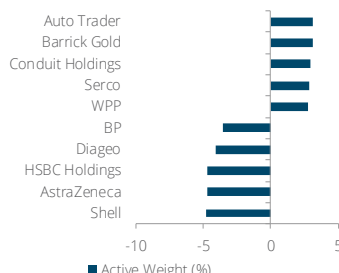
The best and worst contributors to the portfolio's performance relative to the benchmark.



Source: River and Mercantile Asset Management LLP

TOP 5 OVERWEIGHTS & UNDERWEIGHTS

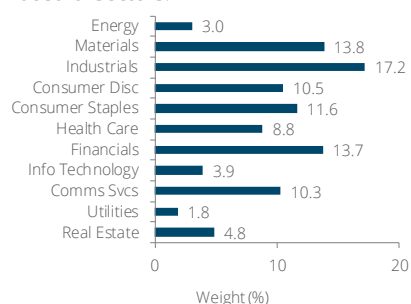
The securities in which the portfolio weight differs most from that of the benchmark.



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 (%)
Auto Trader	3.4
Natwest Group	3.3
WPP	3.2
Barrick Gold	3.1
Mondi	3.1
Serco	3.0
Conduit Holdings	2.9
AstraZeneca	2.9
Reckitt Benckiser	2.9
Whitbread	2.7

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

William Lough & Mayan Uthayakumar

PORTFOLIO & RISK CHARACTERISTICS

Number of Holdings	50
Fund Volatility	16.0%
Benchmark Volatility	13.8%
Beta	1.08
Active Money	78.6%

KEY FACTS

Fund launch date	22/03/2007
Share class launch date	21/11/2012
Benchmark	MSCI UK Investable Markets Index
IA sector	UK All Companies
Total fund size	£62.6m
Domicile	UK
Fund type	UK UCITS
SEDOL	B7H1R58
ISIN	GB00B7H1R583
Bloomberg	RIVMERB
Distribution type	Accumulation

FEES & CHARGES

Initial charge	Up to 5.25%
AMC	0.75%
Ongoing charge (including AMC)	0.88%

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

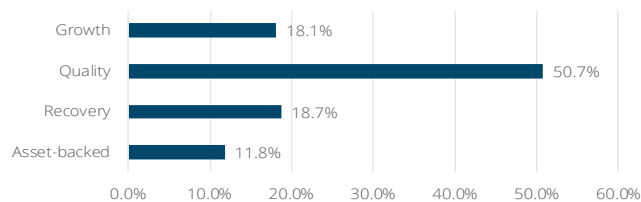
Comparison of portfolio and benchmark weightings across a range of sizes based on company value.

		Fund	Benchmark	Active
Mega Cap	£20bn +	32.0%	65.6%	-33.6%
Large Cap	£4bn - £20bn	25.6%	20.7%	4.9%
Mid Cap	£2bn - £4bn	12.9%	6.4%	6.5%
Small Cap	£100m - £2bn	28.8%	7.2%	21.5%

Source: River and Mercantile Asset Management LLP

CATEGORIES OF POTENTIAL

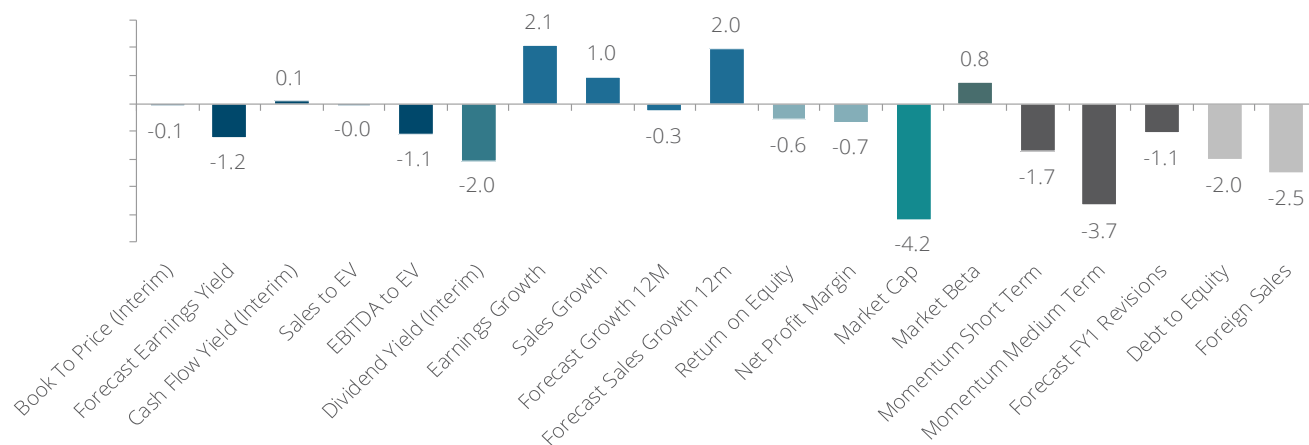
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.



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

This fund was renamed on 1 January 2016 and was previously known as the R&M UK Equity Unconstrained Fund.

MANAGER'S REVIEW

Investment background

The UK market, as measured by our benchmark (MSCI United Kingdom IMI index), was up +4.3% in the month following the aggressive sell off in June. 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.

Strategy update

Performance

The fund was up 4.1%¹ in July versus 4.3% by its comparator benchmark, the MSCI United Kingdom Investable Markets index².

The following stocks were the top three positive contributors in the period. **Weir** benefitted from strong 1H results with the aftermarket business driving better than expected results and guidance for profits at the top of the forecast range. **Drax**, a new addition to the portfolio in the period, delivered strong 1H results with positive momentum from power prices and output optimisation more than compensating for inflationary pressures in biomass costs. **Auto Trader** did not publish results in the period, but we think it benefitted from an improvement in used-car listing volume trends, a key revenue driver. Relative performance also benefitted from zero weights in **HSBC**, **British American Tobacco** and **GSK**.

Sabre Insurance was the most material negative contributor in the period with the position costing 0.8 percentage points of relative performance; the shares fell 47% as the company reset expectations for underwriting profitability. We have been in a soft pricing motor insurance market for some time and Sabre has suffered over the last few years as underwriting discipline resulted in lower growth. The premise of the Sabre investment case has been their market leading underwriting discipline which goes some way to explaining the share price reaction and illustrates the current challenges in the industry. The cause, significantly higher than expected inflation in the cost of claims, which was also evident in Direct Line's profit warning which followed shortly afterwards, might be the catalyst required for pricing to harden but evidence will be required before Sabre's rating can start to re-build. **Barrick Gold** was the second most material negative contributor in the period (-0.5 percentage points of relative performance) following a disappointing 2Q update with production below and cost above expectations respectively. The third largest negative contributor to relative performance was **888 Holdings**, which continued to be impacted by an ongoing lack of regulatory clarity in the UK market, a higher-than-expected cost of debt on new debt facilities and a deteriorating consumer environment. Zero weights in **Ashtead** and **Diageo** were also material contributors to relative underperformance in the period.

Activity

We added the following two stocks to the portfolio in the period. **Gamma Communications**, a legacy issue-less, first to market provider of displacement communication services to UK businesses with distribution through a large and growing wholesale channel for whom Gamma offer seamless integration and support. The shares were purchased at an attractive valuation discounting lower growth and returns in the future which we think is unwarranted and provides a margin of safety. **Drax** is a strategically important vertically integrated provider of dispatchable renewable power (sustainable biomass) that enables intermittent renewables in the UK energy mix without threatening the security of supply. Its existing business is highly cash generative with strong visibility over a high proportion of long-term index-linked cash flows. These cash flows underpin self-funding of a multi-billion-pound value-creating investment programme in pellet plant expansion, pumped hydro expansion and negative emissions (BECCS), the latter being a potential game changer given the magnitude of the market opportunity. Growing political scrutiny of energy inflation and concerns around the potential for adverse impact on Drax created an attractive valuation opportunity. We are more sanguine about the impact of potential power market reform given that short-term earnings are largely locked-in and although mid-term earnings upside might not materialise, long-term earnings are likely to be more secure.

Outlook

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. This is a good reminder to focus on stock selection with a balanced approach. We attempt to diversify our portfolios to protect against foreseen and unforeseen risks. We do this through our multi-factor PVT approach which enables us to invest in strong, cash generating companies at various stages of their corporate lifecycle.

William Lough & Mayan Uthayakumar

Portfolio Managers

August 2022

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