

# River and Mercantile UK MICRO CAP INVESTMENT COMPANY

RIVER AND MERCANTILE

## PAST PERFORMANCE

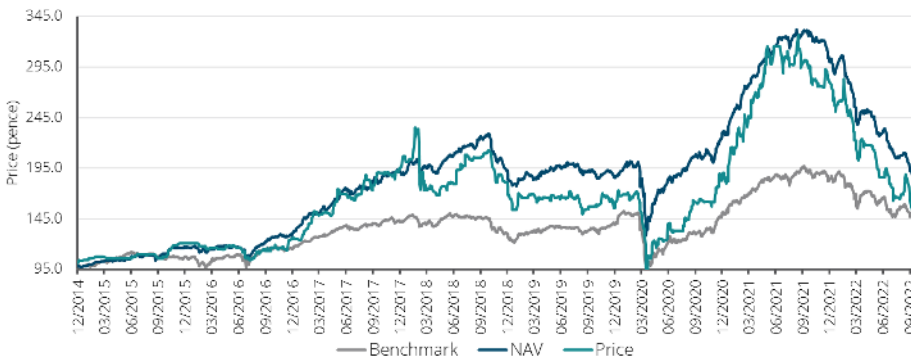
The chart and table below show the performance of the Company since its launch on 2 December 2014.

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         | -12.5     | -20.2      | -43.1 | 74.1              |
| Share Price | -16.8     | -20.3      | -45.9 | 43.9              |
| Benchmark   | -7.7      | -7.1       | -27.0 | 42.1              |

## TOP 10 CONTRIBUTORS TO RETURN

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

| Company            | Relative contribution to return |
|--------------------|---------------------------------|
| MaxCyte            | 0.6%                            |
| Capital Limited    | 0.4%                            |
| Argentex           | 0.4%                            |
| Manolette Partners | -0.4%                           |
| Sigmaroc           | -0.4%                           |
| IIOG               | -0.5%                           |
| LendInvest         | -0.6%                           |
| Keystone Law       | -0.7%                           |
| Aquis Exchange     | -0.8%                           |
| Science In Sport   | -1.4%                           |

Source: River and Mercantile Asset Management LLP

## TOP 10 HOLDINGS

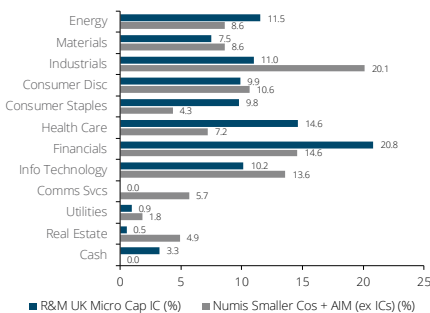
The ten largest positions by weight held in the portfolio.

| Company                 | Weight |
|-------------------------|--------|
| Instem                  | 5.4%   |
| Capital Limited         | 4.9%   |
| Allergy Therapeutics    | 4.9%   |
| ActiveOps               | 4.5%   |
| Litigation Capital Mgmt | 3.7%   |
| Mind Gym                | 3.5%   |
| Alpha FX                | 3.5%   |
| Shanta Gold             | 3.4%   |
| Keystone Law            | 3.4%   |
| Sigmaroc                | 3.1%   |

Source: River and Mercantile Asset Management LLP

## SECTOR WEIGHTS

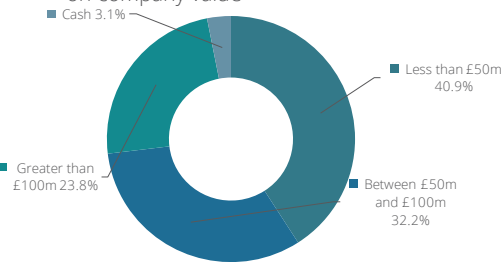
Portfolio weightings within specific industrial sectors.



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       | £57.8m                                       |
| Number of holdings  | 41   |
| Domicile            | UK   |
| SEDOL               | BNDMJ1                                       |
| ISIN                | GG00BNDMJ11                                  |
| Ticker              | RMMC LN                                      |

## FEES & CHARGES

|                 |                       |
|-----------------|-----------------------|
| AMC             | 0.75%                 |
| Performance fee | 15% of outperformance |

## CONTACT DETAILS

Email enquiries@riverandmercantile.com



## 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 195p at the end of August to 170.6p at the end of September, a decline of 12.5%, underperforming the benchmark performance, a drop of 7.7%, by 4.8%. Global equity markets continue to sell-off as evidence of 'sticky' inflation measures increasing, rather than declining sequentially, have reinforced central bank commitment to fighting inflation. The UK government's 'mini-budget' is aimed at boosting economic growth, but its unfunded nature spooked financial markets and saw the Bank of England (BoE) step in with a temporary bond buying programme to stem losses in UK gilts; the UK 10-year gilt yield moved from 2.8% at the end of August to a high of 4.5%, changing the calculus of relative value for a range of investments.

On a rolling twelve-month basis, the NAV performance is 21.1% behind the benchmark performance. There will be a full review of the drivers of this performance in the annual report which will be available later this year. Smaller companies underperformed the wider UK market by 1.9% in September and have underperformed by 24.3% on a rolling twelve-month basis which is the largest relative drawdown for at least thirty years.

Given the backdrop, it was interesting to see that two of our longer duration Growth stocks were our best performers in the month. Both **MaxCyte** and **Boku** bounced from oversold levels with Boku's recovery catalysed by a strong set of interim results and a new contract with the leading global ecommerce business, Amazon. The company has acquired more than 100 million new users for leading digital companies including Microsoft, Spotify, Apple and Google over the last two years by aggregating multiple mobile payment methods. **Argentex**, the FX service

business, has been recovering from very oversold levels and has, since the end of last month, updated the market that the recent FX volatility has driven exceptional trading conditions. We are expecting upgrades to full year expectations with their interim results.

**DF Capital** and **LendInvest** sold off, despite strong interim results from DF Capital, given the exceptional move in the UK gilt yield and the challenges this brings for lending businesses. Both businesses are very well capitalised, and we would expect them both to continue to take market share.

**Keystone Law** fell 25% despite a strong set of interim results and insider buying (taking the CEO's ownership to 29%). We continue to see the investment as a high conviction Quality-Growth investment case – the business has delivered a 7-year organic profit growth rate of 37% per annum. **Aquis Exchange** delivered a soft first half performance with their share of pan-European trading volumes struggling to break above 5%. The 34% decline in the month and 60% peak to trough decline for a fully funded business with an excellent track record of growth and strong contract momentum seems unjustified. **SigmaRoc** also provided a strong set of interim results including a significant joint venture with ArcelorMittal which highlights the company's ambition and ability to continue creating value even when their share price is depressed.

**Smoove** fell significantly in the period following a trading update that flagged an adverse business mix shift away from high margin purchases to low margin re-mortgage activity which has negatively impacted profit growth. The company now trades at a small premium to cash which fails to recognise any value for the profitable eConveyancer business.

**IOG**, the North Sea gas producer, fell a further 30% given the production challenges they are experiencing. They do however continue to benefit from the high gas price and production should improve as their second asset, Southwark, comes online later this year.

Litigation financing firm **Manolete** provided a negative update to the market with a large case being lost and written down. The company are in the process of appealing the decision. They additionally wrote down carrying values for ongoing cases given the economic deterioration – a risk that comes with their accounting approach. We have always focused on cash returns which are at record levels, and we expect that the current environment – with insolvencies accelerating – is a good one.

Following **Science in Sport's** disappointing trading update in July and its recently completed capex program, additional equity was looking increasing likely. The company raised capital at a substantial discount in September, marking the shares down by 44%. The company has initiated a strategic review which should highlight what we believe to be material value upside in the core brand.

Whilst there were no positions initiated or exited in the month, we have been fairly active. We added to positions in **CMO Group**, **Science in Sport**, **SigmaRoc**, **Virgin Wine** and **Venture Life** with a total of 1.8% of NAV invested. We took profits in **Capital**.

## **MANAGER'S REVIEW (continued)**

Sentiment towards UK equities remains very depressed. The Government's recently announced fiscal actions are at odds with monetary policy focused on fighting inflation which has had a significant impact on the expectations for the pace of rate rises from the BoE. A better explanation of how the proposed policies will enhance growth and how government debt levels will be stabilised over the medium term should restore calm in the markets. The UK has neither a leverage nor funding challenge with the second lowest level of debt to GDP in the G7 and the longest average debt maturity in the OECD (Organisation for Economic Co-operation and Development). Fears of a recession have created an investment environment characterised by wide valuation dispersion where the premium for certainty, liquidity and strong balance sheets is high which creates great opportunities for stock pickers with a longer time horizon and willingness to look through short-term earnings volatility.

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  
October 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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