30 SEPTEMBER 2022

ES River and Mercantile GLOBAL RECOVERY FUND

CLASS B GBP (Income)

RIVER AND MERCANTILE

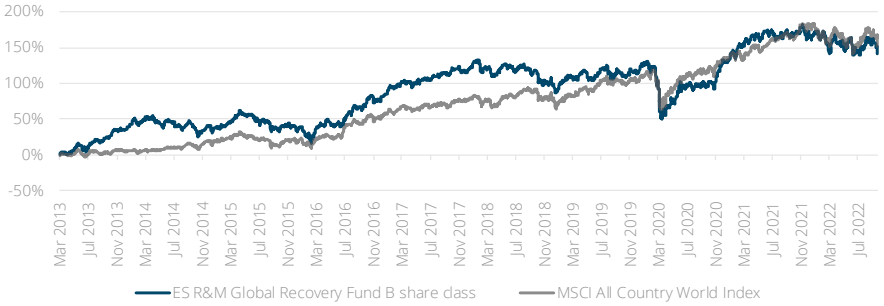
PAST PERFORMANCE

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 4 March 2013.

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

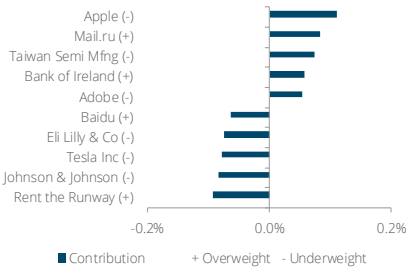
	1 month %	3 months %	1 year %	3 years %	5 years %	Since inception %
B share class (Inc)	-6.4	-0.9	-11.2	12.0	11.9	140.8
Benchmark	-5.7	1.4	-4.2	23.3	49.4	152.9

DISCRETE 12 MONTH PERFORMANCE

	12 months to 30/09/2018	12 months to 30/09/2019	12 months to 30/09/2020	12 months to 30/09/2021	12 months to 30/09/2022
B share class (Inc)	1.6%	-1.6%	-8.5%	37.9%	-11.2%
Benchmark	12.9%	7.3%	5.3%	22.2%	-4.2%

TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS

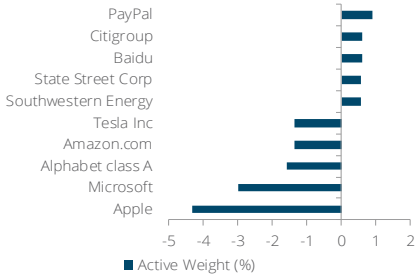
The best and worst contributors to the portfolio's performance relative to the benchmark.



Source: River and Mercantile Asset Management LLP

TOP 5 OVERWEIGHTS & UNDERWEIGHTS

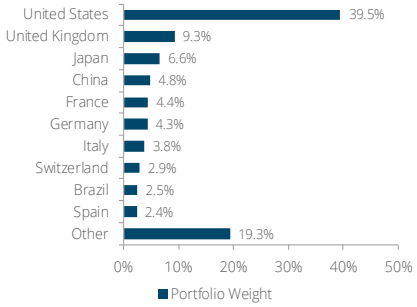
The securities in which the portfolio weight differs most from that of the benchmark.



Source: River and Mercantile Asset Management LLP

TOP 10 COUNTRY WEIGHTS

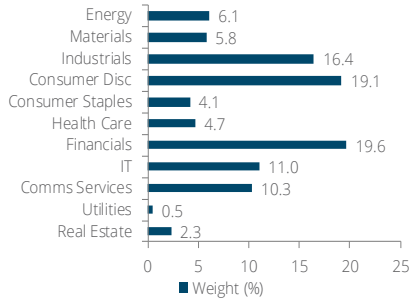
The portfolio's ten largest country holdings by total weight.



Source: River and Mercantile Asset Management LLP

SECTOR WEIGHTS

Portfolio weightings within specific industrial sectors.



Source: River and Mercantile Asset Management LLP

INVESTMENT OBJECTIVE

To grow the value of your investment (known as "capital growth") in excess of the MSCI All Country World Index (ACWI) 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	473
Fund Volatility	15.4%
Benchmark Volatility	13.4%
Beta	1.07
Active Money	81.6%

KEY FACTS

Fund launch date	04/03/2013
Share class launch date	04/03/2013
Benchmark	MSCI All Country World index
IA sector	Global
Total fund size	£298.2m
Domicile	UK
Fund type	UK UCITS
SEDOL	B9428D3
ISIN	GB00B9428D30
Bloomberg	RMEWREB
Distribution type	Income

FEES & CHARGES

Initial charge	Up to 5.25%
AMC	1.00%
Ongoing charge (including AMC)	1.12%

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

TOP 10 HOLDINGS

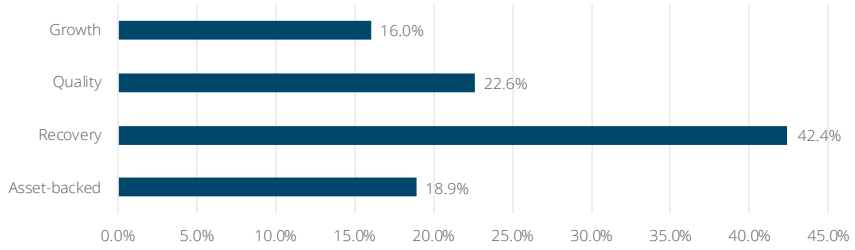
The ten largest positions by weight held in the portfolio.

	Weight (%)
PayPal	1.1
Meta	0.9
Pfizer	0.9
Wells Fargo & Co.	0.8
Citigroup	0.8
Walt Disney Company	0.7
Baidu	0.7
Amazon.com	0.6
Alibaba Group	0.6
State Street Corp	0.6

Source: River and Mercantile Asset Management LLP

CATEGORIES OF POTENTIAL

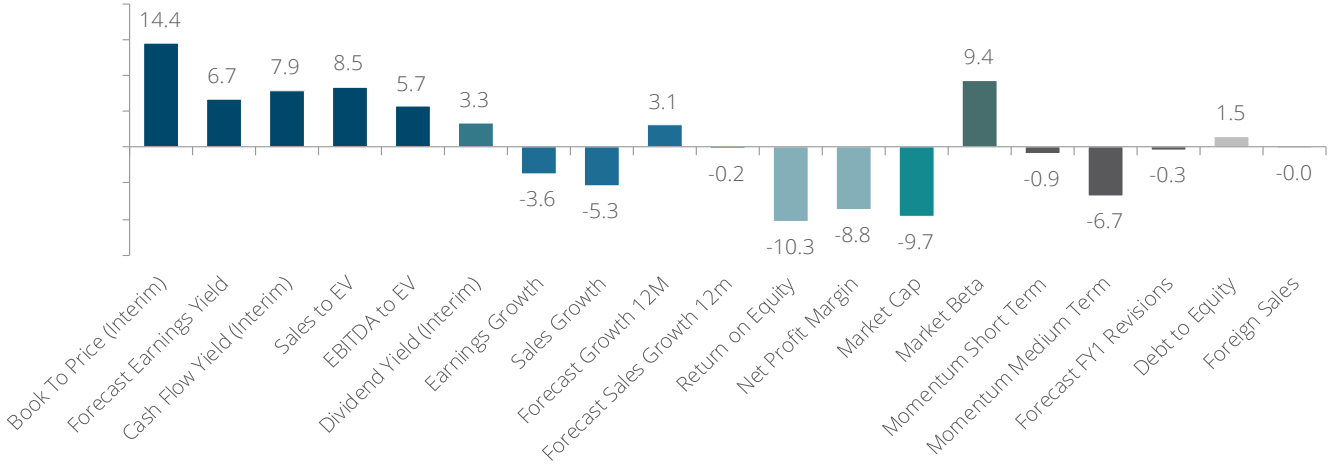
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.



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

OTHER INFORMATION

Authorised Corporate Director	Equity Trustees Fund Services Limited
Investment manager	River and Mercantile Asset Management LLP
Depositary	The Bank of New York Mellon (International) Limited

This fund was renamed on 1 July 2018. It was previously known as the R&M World Recovery Fund.

MANAGER'S REVIEW

Investment background

Global equity markets were sharply negative in September (MSCI ACWI -9.6% total return in USD), continuing the path since Fed Chair Powell's speech at Jackson Hole on 26 August. Evidence of 'sticky' inflation measures increasing rather than declining sequentially have reinforced central bank commitment to fighting inflation, making summer considerations for a 'pivot' towards looser monetary policy a distant memory. The US 10-year bond yield moved up 60bps to 3.8% at month end, having breached 4% for the first time since 2008. Any equities with 'uncertainty' underperformed the falling market.

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 step in with a temporary bond buying programme to stem losses in UK gilts. Sterling was initially weak, though this appears as much a feature of US dollar strength as anything (DXY +3% in September, +19% over 1 year). Broad dollar strength is contributing to tightening financial conditions outside the US and brings to mind former US Treasury Secretary Connally's comment in the 1970s: "The dollar's our currency, but it's your problem."

Strategy update

Performance

The fund returned -6.4%[1] in September versus -5.7% by its comparator benchmark, the MSCI All Country World Index (ACWI)[2].

Whilst performance has not been great we are protecting capital reasonably well in this year's environment of significant drawdowns and fear, supported by the modest valuations of our portfolios and the inflation hedge nature of some of our sector exposures. However, our other key factors, namely recovery, multi-cap, out-of-favour structural growth and regional diversification are struggling in this environment of acute risk aversion and economic worries. However, when the cycle bottoms-out all these factors, and Value will do well.

Positive contributors during the month included our overweight positions in Bank of Ireland, a significant beneficiary of interest rates trending upwards and its consolidated home market and Las Vegas Sands, which started to rally as Macau looked to re-open. Underweight positions in a number of stocks were also helpful, including Apple and Microsoft.

The main negative contributors were smaller company weakness, our underweight positions in 'defensive' large cap stocks such as Johnson & Johnson, and the ongoing weak sentiment towards all things consumer facing. Our underweight the USD was also a negative.

Activity

The market is paying quite full prices for certainty stocks (low volatility streams of profits and cash flow) and double discounting valuations for uncertainty stocks (any companies where there is a risk to short term profits and cash flow). The great thing at the moment is that the latter covers a very wide range of stocks, from deep value to high quality (but a bit cyclical) and to fast growth (but uncertain short term delivery), so my investable universe is very large. And in typical fashion I am buying a diversified portfolio of these opportunities in a very gradual manner at very discounted valuations. The range (inter decile) of earnings multiples one is having to paying is say 3 to 13x or on sales 0.3 to 2x (my guide for de-rated digital platform stocks). And these are companies that on average have a history of growing at a reasonable pace. So, say the portfolio is on 8x earnings and grows over the next five years at nominal GDP of say 5% (2% GDP, taking into account the ex-UK component and 3% inflation then you should be locking in double digit annualised returns for the next few years.

We continue to like Harbour Energy, the largest pure-play E&P on the UK continental shelf (c15% of the UK's O&G production). Although it has a mature asset base, it is an important source of domestic energy and it operates in a relatively low-cost region. Harbour is taking action to achieve its Net Zero goal by 2025. In 1H22, the company reduced its GHG emission intensity (scope 1 and 2) by -13% YoY through a range of actions almost all of which are NPV positive since they deliver improved uptime and/or lower fuel usage. The company has a strong track-record of organic reserve additions, extending field-life and growth via M&A. It is poised to benefit from an environment of higher for longer gas prices which should provide it with significant balance sheet optionality to fund future growth whilst continuing to improve the environmental performance of the portfolio as emission intensity is a key M&A criterion.

We continued to build a position in Spotify which has consolidated its market leading position over the last year but which has continued to de-rate as the management team has preferred a continued focus on the longer term opportunity rather than short term profits, the shares now valued well below our 2x sales indicator of value amongst the digital platform operators.

We are slowly moving overweight Real Estate stocks following their interest rate related de-rating. Whilst NAVs will need to fall to reflect yield increases this is now more than reflected in share prices that trade at 30 – 60% discounts to net assets. We particularly like Capco in the UK.

We took profits in MakemyTrip and Toyo Tanso, both strong performers over the last year having delivered through their recovery cycle and now trading on fuller valuations. We also sold Vnet following a take private proposal.

Outlook

Catalysed by inflation pressures the world is being forced by Central Banks to move to a world of money costing a more normal (and ultimately more sustainable) amount. The monetary tightening and economic uncertainty associated with this transition is creating huge uncertainty, an aggressive discounting of risks and a few blow-ups (mini-budgets, pension fund liability management). But uncertainty creates investment opportunities and from my perspective, there is amazing value out there. Who knows when the low point will be, though it should be pretty close given how 'end of the world' everything feels. I'm not sure I can ever remember having such a great combination of low valuations plus exposure to medium-term profits and cash growth in my equity portfolios. Very exciting, what more can I say. If one's not banging the table now and over the coming months of uncertainty, then I'm not quite sure when one would because these types of opportunities don't come along that often.

Hugh Sergeant
Portfolio Manager
October 2022

[1]*B share class (GBP), mid-day to mid-day pricing.*
[2]*Close-of-business to close-of-business pricing.*

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