

# River and Mercantile UK MICRO CAP INVESTMENT COMPANY



## PAST PERFORMANCE

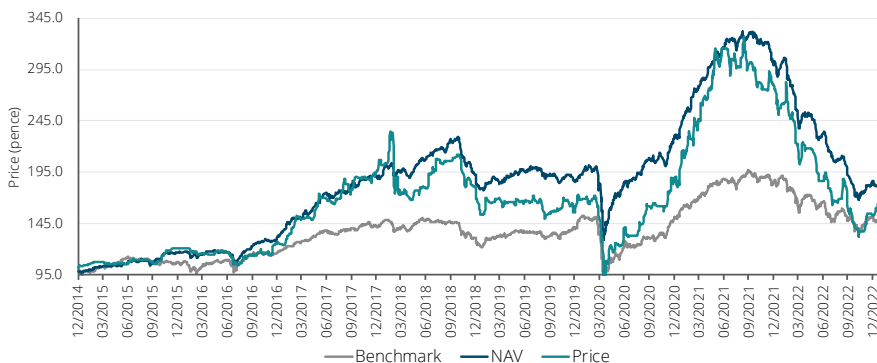
The chart and table below show the performance of the Company since its launch on 2 December 2014.

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	-2.7	4.9	-40.3	82.7
Share Price	5.8	16.3	-37.0	67.3
Benchmark	-1.2	6.9	-21.9	51.9

## TOP 10 CONTRIBUTORS TO RETURN

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

	Relative contribution to return
Venture Life	1.1%
Ten Lifestyle	0.8%
Argentex	0.3%
ActiveOps	0.3%
Litigation Capital Mgmt	-0.2%
Mind Gym	-0.2%
CMO Group	-0.3%
Aquis Exchange	-0.3%
Alpha Group Int'l	-0.7%
Allergy Therapeutics	-1.6%

Source: River and Mercantile Asset Management LLP

## TOP 10 HOLDINGS

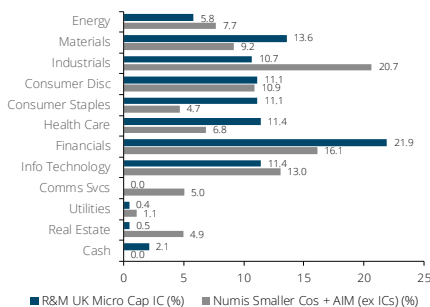
The ten largest positions by weight held in the portfolio.

	Weight
Instem	6.1%
Capital Limited	4.8%
ActiveOps	4.3%
Sigmaroc	4.3%
Venture Life	4.0%
Keystone Law	3.9%
DF Capital	3.8%
Alpha Group Int'l	3.6%
Manolete Partners	3.4%
Shanta Gold	3.3%

Source: River and Mercantile Asset Management LLP

## SECTOR WEIGHTS

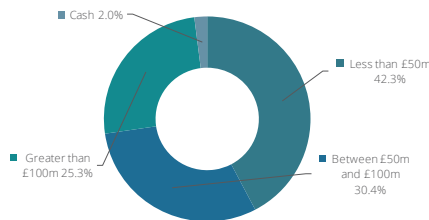
Portfolio weightings within specific industrial sectors.



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	£60.7m
Number of holdings	41
Domicile	UK
SEDOL	BNDMJ1P
ISIN	GG00BNDMJ1P1
Ticker	RMMC LN

## FEES & CHARGES

AMC	0.75%
Performance fee	15% of outperformance

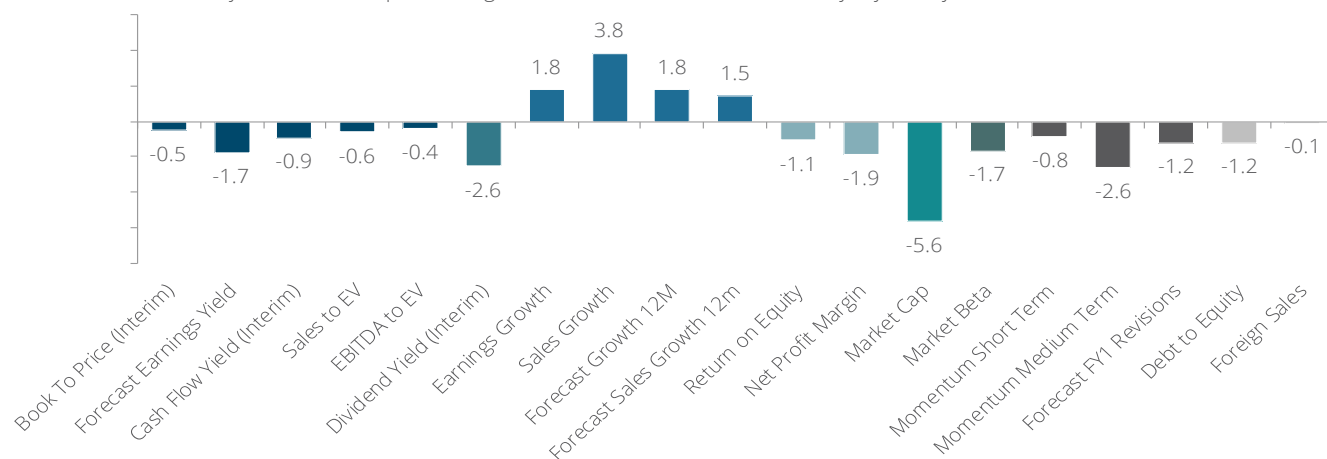
## CONTACT DETAILS

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 recovery in UK equities stalled in December with both the UK Smaller Companies plus AIM index (-1.2%) and the wider UK market (-1.4%) declining. Both indices show strong gains since the end of September, +6.9% and +8.8% respectively, albeit notable that there has not been a rotation of equity performance from large to small cap. The Numis Smaller Companies plus AIM index ended the year down 21.9%, underperforming the wider UK market by 23.5%.

The Company's NAV per share closed the year at 179p, a decline of 2.7% since the end of November, underperforming the benchmark by 1.5%. Relative performance for the final quarter and the calendar year was -2% and -18.4% respectively. 2022 has been a year dominated by tightening monetary conditions, declining liquidity, risk tolerance and consumer sentiment which is an extremely challenging backdrop for micro-cap equities.

Whilst we do not believe that we are going to rapidly return to a world of declining interest rates and easy money, there is evidence that high rates of price inflation are slowing. Most commodity prices have fallen significantly through the second half of 2022 which should provide further support and lead indicators suggest that economic growth is slowing. All of which supports the case that, at least in the short term, we have seen peak interest rate and inflation expectations which is supportive of equity prices. The forward curve for gas prices is lower than it was either one or six months ago which means the measures implemented by various governments to protect consumers will be less expensive than expected.

And – for now – employment and wage growth remain robust which should support discretionary spending.

We acknowledge that it is unlikely that we are at the end of the downgrade cycle. Using the Financial Crisis as a comparison, General Retail, an early cycle sector, saw the last downgrades in April 2009 but the sector's performance relative to the market troughed in July 2008, nine months before the beginning of the upgrade cycle. All cycles are different but there will come a point where the market will look through the downgrades. Finally, with the Numis Smaller Companies plus AIM benchmark trading on a 1-year forward PER of 9.5x (ex-loss makers) and earnings expected to grow by +3% - the current valuation opportunity is extremely attractive.

Performance in December was supported by the ongoing recovery in **Venture Life** (+38%) and **Ten Lifestyle Group** (+39%). Both companies remain extremely cheap despite strong trading momentum. **Allergy Therapeutics** (-53%) was the key underperformer of the month following an announcement that the company will not meet the requirement to publish its accounts within six months of its year-end, resulting in the shares being suspended. The company have been clear that they have a short-term funding requirement following the shut-down of its UK manufacturing facility during peak production months to upgrade quality control processes. This has had a material impact on the group's cash flow generation and resulted in the withdrawal of the group's revolving credit facility.

There was one new addition to the portfolio in December. **Netcall** is a software company offering digital transformation solutions that enable business and government automation by improving both customer and employee experience with unrivalled ease of use. Customer led innovation is the foundation of the group's sustainable competitive advantage and strong growth potential. Expectations are conservative with risk to the upside and the valuation is attractive at a discount to history and peers.

Despite the bounce from the market lows, sentiment remains depressed and positioning remains cautious. It will take time for risk sentiment to return and capital markets to re-open. These are cyclical facets of the small and micro-cap universe. Whilst the recovery is unlikely to be linear and further downside to earnings expectations is probable, the medium-term opportunity for shareholder valuation creation is extremely attractive.

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  
January 2023

## 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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## INVESTMENT MANAGER

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