

# River and Mercantile UK MICRO CAP INVESTMENT COMPANY

RIVER AND MERCANTILE

## PAST PERFORMANCE

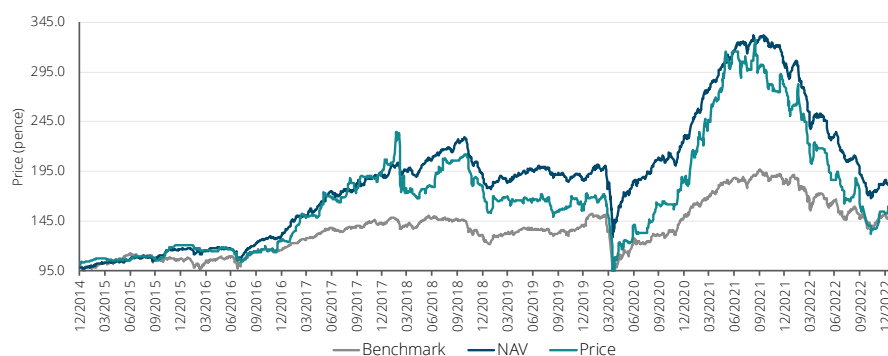
The chart and table below show the performance of the Company since its launch on 2 December 2014.

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	3.9	6.1	3.9	89.8
Share Price	-1.2	18.2	-1.2	65.3
Benchmark	5.0	10.0	5.0	59.6

## TOP 10 CONTRIBUTORS TO RETURN

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

	Relative contribution to return
DF Capital	0.5%
Cake Box Holdings	0.4%
Venture Life	0.4%
Shanta Gold	0.3%
GetBusy	0.3%
Kooth	0.3%
Revolution Bars Group	-0.4%
Virgin Wines UK	-0.4%
Mind Gym	-0.5%
Instem	-1.0%

Source: River and Mercantile Asset Management LLP

## TOP 10 HOLDINGS

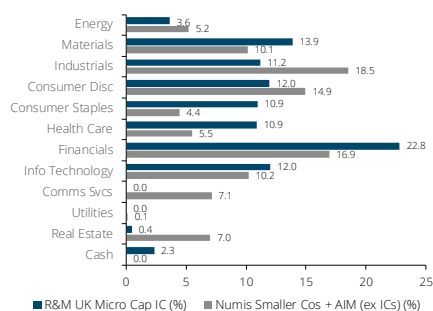
The ten largest positions by weight held in the portfolio.

	Weight
Instem	5.3%
DF Capital	5.2%
Venture Life	4.4%
Sigmaroc	4.4%
Keystone Law	4.4%
Capital Limited	4.3%
ActiveOps	4.3%
Shanta Gold	3.7%
Manolete Partners	3.5%
Alpha Group Int'l	3.5%

Source: River and Mercantile Asset Management LLP

## SECTOR WEIGHTS

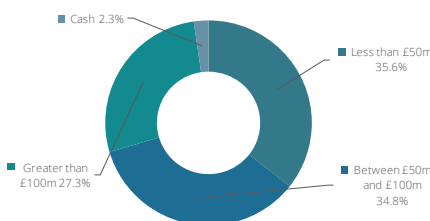
Portfolio weightings within specific industrial sectors.



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	£63.0m
Number of holdings	40
Domicile	UK
SEDOL	BNDMJP1
ISIN	GG00BNDMJP11
Ticker	RMMC LN

## FEES & CHARGES

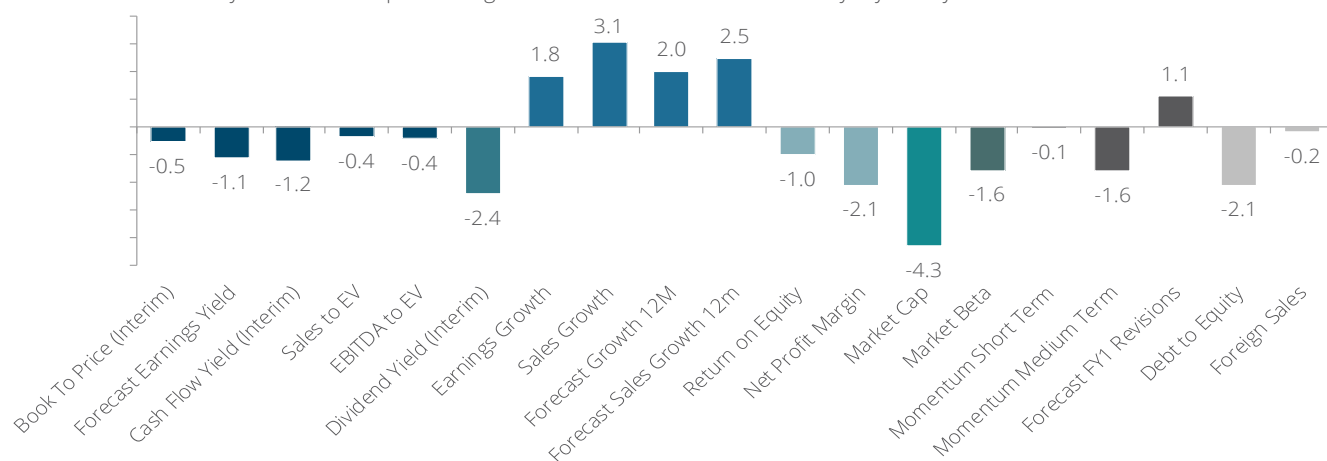
AMC	0.75%
Performance fee	15% of outperformance

## 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

## PORTFOLIO MANAGER'S REVIEW

UK Smaller Companies have rallied by 14.7% since the market low on the 12th October 2022, a similar return (14.3%) can be seen from the wider UK market. Expectations for the gas price at the market low for January 2023 were in excess of 450p / therm, the actual average gas price in January was 158p / therm. Interest rates in the UK were expected to peak above 5.6%, current expectations are for a peak rate of 4.3% with a faster decline – something we would question – than prior expectations had. Similar arguments can be made for real growth and inflation expectations – not to mention the recession that many concluded had already begun. Sterling has also strengthened by 12% against the dollar. The point here is that the various drivers of markets over the last three or four months have a distinctly pro-domestic / small cap impact and yet smaller companies have not outperformed. And that is before you consider that the starting point is the largest period of smaller companies' relative underperformance since 1989.

Data from Numis shows that the Numis Smaller Companies benchmark began the year on just 8x earnings, down from 17x at the start of 2022 and one of the lowest starting multiples in over forty years and – to the previous point – one of the lowest starting valuations relative to the wider UK market. The absolute and relative valuation opportunity is exceptional.

The final piece of the jigsaw is corporate earnings which, all things considered, have been relatively robust – at least in nominal terms. The factors mentioned above – FX, gas prices, inflation expectations plus

consumer confidence – will play a critical role in the direction of travel for 2023 earnings.

The Company's NAV per share moved up to 186p, a gain of 3.9% since the end of December, underperforming the benchmark by 1.1%.

Poor trading updates from **Virgin Wines** (-23% with a failed implementation of a new warehouse management system partly to blame) and **Revolution Bars** (-21% impacted by train strikes) were negative contributors to performance. We had reduced our position in Virgin Wines ahead of the trading update and sold it down further following the update. Higher conviction positions **MindGym** and **Instem** (both -11%) were down despite no negative news and resulted in a 1.5% headwind to performance.

Specialist lender **DF Capital** (+13%) announced 76% loan book growth whilst protecting their net interest margin at more than 6% - the shares trade at an unwarranted discount to book despite the strong operational delivery and we added to our position. We saw strong share price performance in other holdings that we have added to on weakness over the last six months including **Cake Box** (+24%), **Venture Life** (+15%), **Kooth** (+18%) and **Renold** (+17%).

We initiated one new position and exited two positions in the month. **IG Design Group** has been purchased on a Recovery investment case. The company manages celebrations products – wrapping paper, Christmas crackers etc – on behalf of some of the largest retailers in the world. Increasing freight rates destroyed profitability which is now being rebuilt

under a new management team.

We exited our positions in **eEnergy** and **IOG**. Both businesses were relatively recent additions to the portfolio but neither has come close to delivering either operationally or financially since we invested. In hindsight, we were too early to each investment.

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  
February 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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