28 FEBRUARY 2023

ES River and Mercantile UK RECOVERY FUND

CLASS B GBP (Income)

RIVER AND MERCANTILE

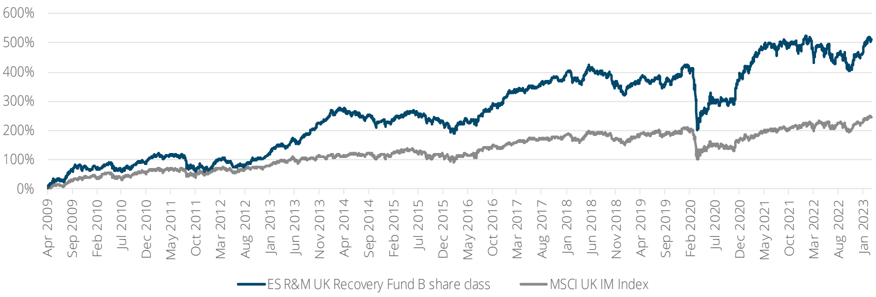
PAST PERFORMANCE

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 1 April 2009.

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

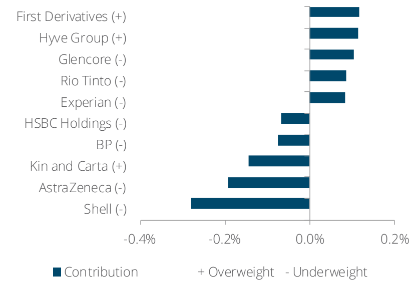
	1 Month %	3 Months %	1 Year %	3 Years %	5 Years %	10 years %	Since inception %
B share class (Inc)	1.9	8.6	5.4	37.7	28.1	146.2	512.7
MSCI UK IM Index	1.8	4.7	7.9	28.5	27.3	78.5	245.1

DISCRETE 12 MONTH PERFORMANCE

	12 months to 28/02/2019	12 months to 28/02/2020	12 months to 28/02/2021	12 months to 28/02/2022	12 months to 28/02/2023
B share class (Inc)	-4.2%	-2.8%	20.7%	8.3%	5.4%
MSCI UK IM index	1.5%	-2.4%	1.7%	17.2%	7.9%

TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS

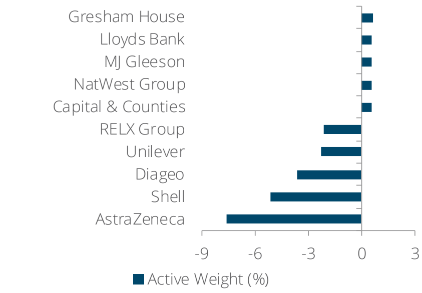
The best and worst contributors to the portfolio's performance relative to the benchmark



Source: River and Mercantile Asset Management LLP

TOP 5 OVERWEIGHTS & UNDERWEIGHTS

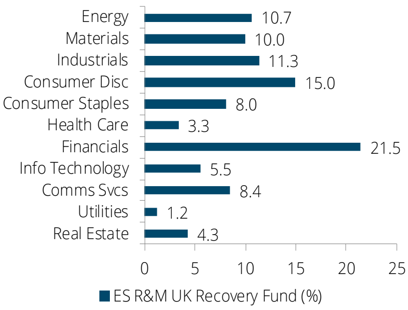
The securities in which the portfolio weight differs most from that of the benchmark



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 (%)
HSBC Holdings	4.1
BP	3.9
Shell	3.1
Unilever	2.4
Rio Tinto	2.2
Lloyds Bank	2.2
Prudential	1.9
Anglo American	1.8
Barclays	1.6
GSK	1.5

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 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

Hugh Sergeant

PORTFOLIO & RISK CHARACTERISTICS

Number of holdings	341
Fund volatility	17.1%
Benchmark volatility	14.5%
Beta	1.14
Active money	55.8%

KEY FACTS

Fund launch date	17/07/2008
Share class launch date	01/04/2009
Benchmark	MSCI UK Investable Markets index
IA sector	UK All Companies
Total fund size	£247.6m
Domicile	UK
Fund type	UK UCITS
SEDOL	B614J05
ISIN	GB00B614J053
Bloomberg	RMUKEBB
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)

1	2	3	4	5	**6**	7

Lower risk — Higher risk

Typically lower rewards — Typically higher rewards

CONTACT DETAILS

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Email enquiries@riverandmercantile.com

MARKET CAPITALISATION

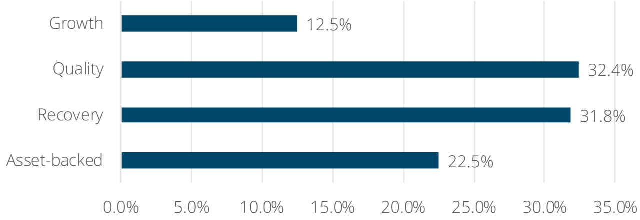
Comparison of portfolio and benchmark weightings across a range of sizes based on company value.

		Fund	Benchmark	Active
Mega Cap	£20bn +	38.9%	66.8%	-28.0%
Large Cap	£4bn - £20bn	16.1%	20.6%	-4.5%
Mid Cap	£2bn - £4bn	6.7%	5.7%	1.0%
Small Cap	£100m - £2bn	32.8%	6.8%	26.0%
Micro Cap	£0m - £100m	4.7%	0.0%	4.7%

Source: River and Mercantile Asset Management LLP

CATEGORIES OF POTENTIAL

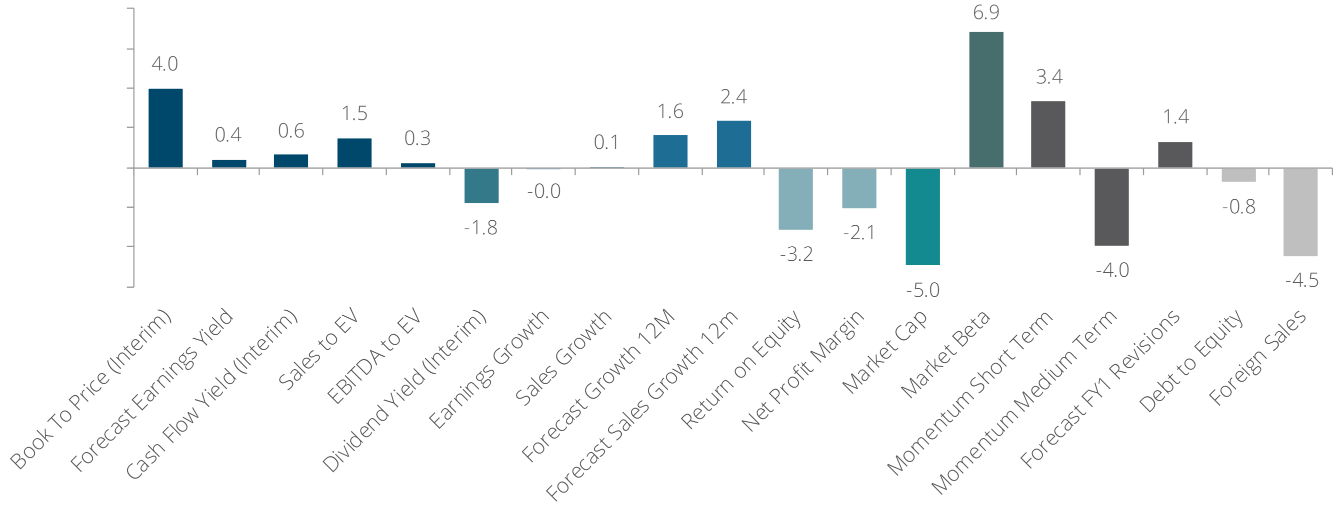
The weighting of the portfolio across the four categories of potential, related to stages of a company's life cycle.



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

CROWN FUND RATING

ELITE RATED by FundCalibre.com

RSMR RATED FUND

SQUARE MILE AA

ii super 60 interactive investor

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 UK Equity Long Term Recovery Fund.

MANAGER'S REVIEW

Investment background

In February equity markets were generally weaker (MSCI ACWI -2.9% total return in USD), apart from the UK market which continues to rise despite everyone's best attempts to talk it down / reduce exposure to it ((MSCI United Kingdom IMI index +1.8% in February). Good news became bad news, in a sense – demand is now perceived as too strong because this will make it harder to bring down inflation, potentially requiring more restrictive interest rates than financial markets had been pricing in. Strength of demand is particularly evident from the US consumer, but you could make an argument that consumer spending has surprised on the upside even in the countries perceived as most challenged by a cost-of-living crisis, such as the UK. The current backdrop has echoes of the famous Mankoff (New Yorker Magazine) cartoon from 1981: "On Wall Street today, news of lower interest rates sent the stock market up, but then the expectation that these rates would be inflationary sent the stock market down, until the realization (sic) that lower rates might stimulate the sluggish economy pushed the market up, before it ultimately went down on fears that an overheated economy would lead to a reimposition of higher interest rates."

Strategy update

Performance

The fund returned +1.9%[1] in February versus +1.8%[2] by its comparator benchmark, the MSCI United Kingdom IMI index.

Our key factors were mixed during the month with the return of economic and interest rate uncertainty undermining the returns to value, recovery and smaller companies. Stock picking was reasonably robust, offsetting some factor drags.

Positive contributors during the month included the return of M&A activity, no doubt a theme that will play out over the next year as even our politicians are now highlighting the discounted nature of UK Equities (**Hyve Group**, **John Wood**) and underweight positions in **Glencore** as the shares peaked alongside the price of a number of commodities. **Draftkings** rallied strongly following a robust update which supports out investment case.

Negative contributors included **Shell**, where we have a large but nevertheless underweight position, and **Kin and Carta** that had a disappointing update.

Activity

The market continues to pay quite full prices for certainty stocks (low volatility streams of profits and cash flow) and double discounted 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), to fast growth (but uncertain short-term delivery), so my investable universe is very large.

There was not a huge amount of activity last month. We are well positioned for a continued return to value, better performance from 'uncertainty' stocks, a return to form of small and mid-caps and a much better environment for consumer and industrial cyclicals as cost-of-living pressures roll-over. Purchases are focused on topping up stocks as they start to beat expectations, such as adding to **Capita**, **Easyjet**, **Rolls** and **Capco**. We sold out of **Antofagasta** and **Burberry** completely following strong performance.

Outlook

There are a couple of good reasons why the UK might avoid a consumer-driven recession or enter only a short-lived one. Firstly, UK inflation which is primarily influenced by external (e.g. commodity, energy and shipping costs) rather than domestic factors appears to have peaked (along with interest rate expectations) – at least in the short-term. Secondly, there should come a point where inflation is falling faster than the pace of nominal wage growth, i.e. real wages start to grow again. In April 2023, 20m UK adults will receive a +10% increase in one of their major sources of income (state pension, universal credit, NLW), in comparison to the MPC estimate that UK CPI will increase +5.5% in the 12m from April 2023. This implies that the experience of falling real incomes for c40% of low-to-middle income households will pivot to growing real income. Thirdly, UK consumer balance sheets remain robust with strong cash balances, low levels of consumer debt and high levels of employment. The value of excess UK savings is equivalent to around 8% of GDP and if the consumer credit / GDP ratio were to return to its 20y average level, there's a further buffer equal to c4% of GDP.

Indeed, alongside the UK economy being in a better short-term place than expected there are a number of other pretty big positives which make the medium-term outlook for UK equities much better than the very depressing narrative regarding the UK. First of all valuations are very low, and over the medium term low starting valuations equal attractive returns. Secondly the UK is now being pretty well managed and has finally seen off the disastrous approach post the referendum. Look what Rishi has delivered with the Northern Ireland trade deal after some sensible negotiations with our European neighbours and look at the sensible growth strategy proposed by Labour. Rishi will make the next election closer than might have seemed possible a few months ago but as is still very likely, and Labour win the next election they actually have some very sensible policies that the market will like and the economy should respond well to. And thirdly it's really great that there is now a consensus, whatever your view on Brexit that the last few years have been wasted and the next few years need to focus on putting in place policies (or leaving well alone if that works, or de-regulating where the economic cost of regulation is higher than the benefit of stopping possibly bad things happening) that help catalyse the economic competitiveness and growth that this new consensus is starting to crave. There is a lot to do to make the UK really competitive again but it can be done and there now seems to be political capital to be had by focusing on this issue. As CRH leave these shores and the media become hysterical about how rubbish we are then just like the Economist's front cover this is likely to be a contra-indicator and represent the bottom of the cycle for the UK's place in the world. Investors should be investing in the UK not dis-investing! Buy low, sell high. Please!

My UK Funds have been launched and run by me at River and Mercantile for 17 years (UK Alpha) and 15 years (UK Recovery) respectively and they have compounded out at double digit rates and been well ahead of the UK benchmark. We have applied the same approach consistently over that long period of time, it's worked more often than not, our readers should know what they are getting. They should also know that I am excited about the opportunities from here as our investment factors are just starting to out-perform again and we have lots of good companies where valuations are low and where on average newsflow is starting to beat depressed expectations. Generating long term wealth for you, your clients and your family, that is what it's about!

Hugh Sergeant
Portfolio Manager
March 2023

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

RIVER AND MERCANTILE