

# ES River and Mercantile UK EQUITY SMALLER COMPANIES FUND

CLASS B GBP (Accumulation)

## PAST PERFORMANCE

The chart and tables below show the performance of the fund's GBP B (Acc) share class since the launch of the share class on 30 November 2006.

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

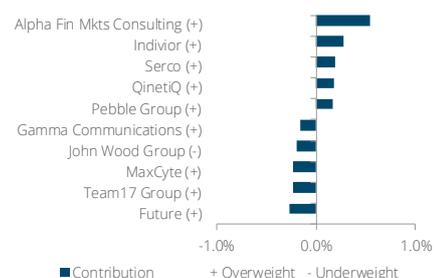
	1 month %	3 months %	1 year %	3 years %	5 years %	10 years %	Since inception %
B share class (Acc)	-0.8	-3.9	-6.6	45.4	54.0	356.6	482.5
Benchmark	-1.6	-5.8	-9.1	21.7	24.7	124.1	149.5

## DISCRETE 12 MONTH PERFORMANCE

	12 months to 30/04/2018	12 months to 30/04/2019	12 months to 30/04/2020	12 months to 30/04/2021	12 months to 30/04/2022
B share class (Acc)	10.9%	-4.5%	-0.9%	57.2%	-6.6%
Benchmark	7.9%	-5.0%	-16.5%	60.3%	-9.1%

## TOP 5 PERFORMANCE CONTRIBUTORS & DETRACTORS

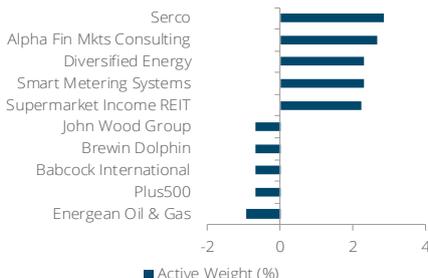
The best and worst contributors to the portfolio's performance relative to the benchmark.



Source: River and Mercantile Asset Management LLP

## TOP 5 OVERWEIGHTS & UNDERWEIGHTS

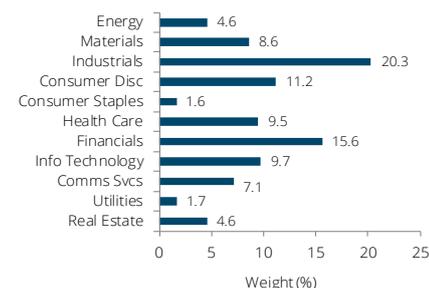
The securities in which the portfolio weight differs most from that of the benchmark.



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.

Company	Weight (%)
Alpha Fin Mkts Consulting	2.9
Serco	2.9
Smart Metering Systems	2.8
Diversified Energy	2.8
Alpha FX	2.7
Supermarket Income REIT	2.2
Indivior	2.2
EMIS	2.1
Chemring	2.1
Alliance Pharma	2.0

Source: River and Mercantile Asset Management LLP

RIVER AND MERCANTILE

## INVESTMENT OBJECTIVE

To grow the value of your investment (known as "capital growth") in excess of the Numis Smaller Companies + AIM (excluding Investment Companies) Index net total return (the "Benchmark") over a rolling 5-year period, after the deduction of fees.

## PORTFOLIO MANAGER

George Ensor

## PORTFOLIO & RISK CHARACTERISTICS

Number of holdings	75
Fund Volatility	16.3%
Benchmark Volatility	17.1%
Beta	0.92
Active Money	83.2%

## KEY FACTS

Fund launch date	30/11/2006
Share class launch date	30/11/2006
Benchmark	Numis Smaller Companies + AIM (ex ICs) Index
IA sector	UK Smaller Companies
Total fund size	£502.9m
Domicile	UK
Fund type	UK UCITS
SEDOL	B1DSZS0
ISIN	GB00B1DSZS09
Bloomberg	RMUKSEA
Distribution type	Accumulation

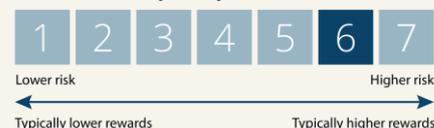
## FEES & CHARGES

Initial charge	Up to 5.25%
AMC	0.75%
Ongoing charge (including AMC)	0.83%

## 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

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### MARKET CAPITALISATION

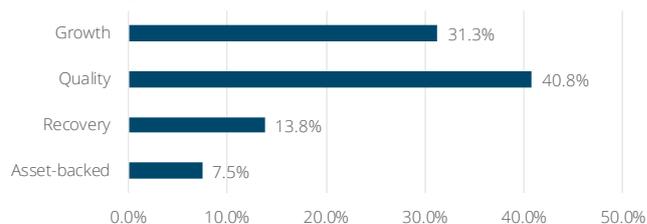
Comparison of portfolio and benchmark weightings across a range of sizes based on company value.

		Fund	Benchmark	Active
Mega Cap	£20bn +	0.0%	0.0%	0.0%
Large Cap	£4bn - £20bn	0.0%	0.0%	0.0%
Mid Cap	£2bn - £4bn	8.3%	0.9%	7.4%
Small Cap	£100m - £2bn	84.2%	90.4%	-6.2%
Micro Cap	£0m - £100m	2.0%	8.6%	-6.6%

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  
 Depository: The Bank of New York Mellon (International) Limited

## MANAGER'S REVIEW

### Investment background

UK smaller companies, as measured by our benchmark (Numis + AIM ex ICS) fell 1.6% in the month, continuing the recent trend of underperformance compared to the wider UK market which delivered a gain of 0.5%. Smaller companies have now underperformed the wider market by 19.3% over the last twelve months, the worst drawdown since 2007/08. 2022 is also setting records for rate rises with 85 central bank hikes recorded so far this year, and a record 220 forecast by the end of the year. A combination of less accommodative monetary conditions and high inflation are beginning to impact demand with the BoE (Bank of England) markedly reducing growth forecasts. Real yields have moved higher impacting valuations of long duration stocks. The S&P 500 delivered a monthly loss of more than 5% for only the fourth time in history with year to date returns of the US market the worse since 1939 whilst the USD made a new 20 year high.

### Strategy update

#### Performance

The fund returned a loss of 0.8%, outperforming our benchmark by 0.8%. On a rolling twelve-month basis, we have outperformed the benchmark performance, a decline of 9.1%, by 2.5%.

**Alpha Financial Markets Consulting** was the key driver of positive performance in the month as the shares gained 24% following a strong year end trading update indicating that profits would be well ahead of expectations. The company continues to see strong demand from its asset manager clients as they deal with increasing regulatory and fee pressure. The shares remain reasonably priced on a high teens earnings multiple / 5.5% FCF (free cash flow) Yield.

Some of our other large positions also performed well, including *Quality* investments **Chemring**, **QinetiQ**, **Serco** and **Hollywood Bowl**, the latter reported LFL (like-for-like) sales for the six-months to the end of March, 27% higher than the equivalent period to March 2019. **Indivior** performed well given further data supporting progress of their two key drugs (Sublocade and Suboxone).

Longer duration growth stocks underperformed given the move higher in real yields. **Team17**, **MaxCyte** and **Future** were the three most expensive positions from a performance perspective with the shares declining by 15% to 19% and impacting relative performance by a combined 0.7 percentage points.

#### Activity

There were no new positions initiated in April. We continue to build stakes in two of the companies that we added in March, **Serica Energy** and **Kenmare Resources**. We also added to two of our non-life insurance holdings, **Conduit** and **Lancashire**, both of which are trading at a discount to tangible book value. Whilst 2022 is expected to be another poor year for underwriters, we think this is increasingly allowed for in the depressed valuations. With short duration investment portfolios, the businesses will start to benefit from higher treasury yields. We supported the fundraising for **888** and added to our positions in **TT Electronics** and **The Restaurant Group** on weakness with both trading on <10x PER.

No exits were made in the month. We took profits in our defence holdings, **QinetiQ** and **Chemring**, and healthcare names, **Alliance Pharmaceutical** and **Indivior**. We took further profits in **Alpha FX**.

### Outlook

Given the many headwinds to consumer real income, it is hardly a surprise to see consumer confidence continue to deteriorate. GfK (Growth for Knowledge - a provider of data and analytics to the consumer goods industry)'s long running UK consumer confidence index decreased to -38, the second lowest reading in its 40-year history, one point higher than the all-time low of -39 which was recorded in July 2008, suggesting we might be close to a low for sentiment.

Central Bank actions are resulting in a normalisation of the real cost of capital which has reduced valuations – especially in the more speculative parts of the markets (bitcoin is down a third year-to-date and more than 50% since the 2021 high). The spread between corporate return on capital and cost of capital remains positive which should support investment, driving productivity and growth over the medium term. Valuations might well continue to de-rate in the short term, driven by declining earnings revisions, but we are beginning to see some fantastic opportunities to allocate capital in UK smaller companies.

We attempt to diversify our portfolios to protect against foreseen and unforeseen risks. We do this through our multi-factor PVT approach which enables us to invest in strong, cash generating companies at various stages of their corporate lifecycle. This approach has supported strong absolute and relative returns for this strategy over more than fifteen years.

As ever, thank you for your support.



**George Ensor**  
Portfolio Manager  
May 2022

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