

RIVER AND MERCANTILE  
ASSET MANAGEMENT

Global Opportunities Fund | Quarterly Report  
December 2009

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# River and Mercantile

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## Global Opportunities Fund – Quarterly Report

### Fund Aim

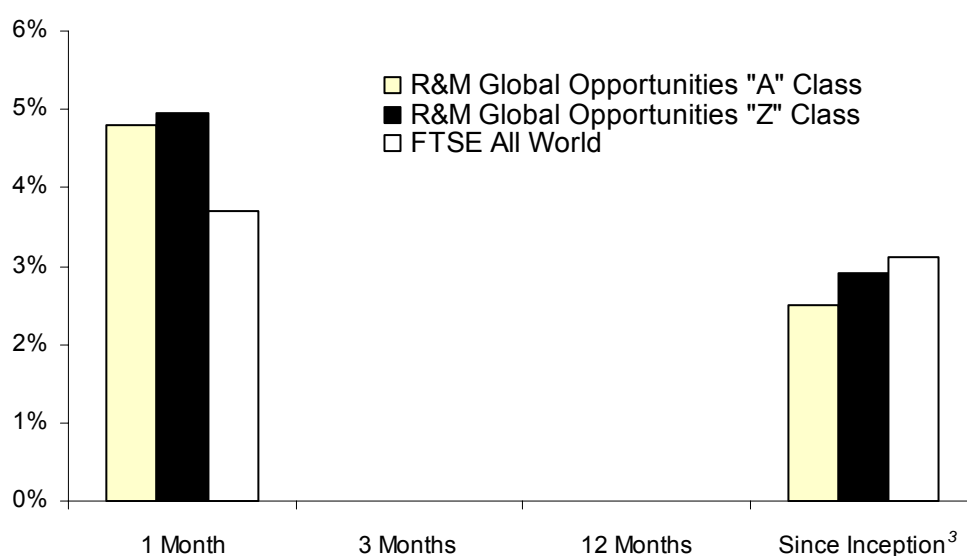
The investment objective of the Fund is to achieve capital growth through investing in a concentrated portfolio of global equities of international companies. The Fund will not be restricted by reference to a benchmark, sector constraints or company size.

Portfolio Summary		Risk Analysis Summary	
Strategy AUM	£86.6m	Portfolio Volatility	18.37 %
Strategy Capacity	£2bn	Benchmark Volatility	17.03 %
Number of stocks	54	Tracking Error	4.69 %
Largest Holding	Pfizer 4 %	Portfolio Beta	1.04
		Active Money	94.70 %

### Performance to 31 December 2009

Retail "A" Class Shares	Fund <sup>1</sup>	Index *	Difference
1 Month	4.80%	3.71%	1.09%
3 Months	-	-	-
12 Months	-	-	-
Since Inception <sup>3</sup>	2.50%	3.11%	-0.61%

Institutional "Z" Class Shares	Fund <sup>2</sup>	Index*	Difference
1 Month	4.95%	3.71%	1.24%
3 Months	-	-	-
12 Months	-	-	-
Since Inception <sup>3</sup>	2.90%	3.11%	-0.21%



Source: River and Mercantile Asset Management LLP

\*Index: FTSE All World

<sup>1</sup>Performance calculated on a mid to mid basis at close of business, net of annual management charge

<sup>2</sup>Performance calculated on a mid to mid basis at close of business, gross of annual management charge

<sup>3</sup>Inception date 8th October 2009

### Quarter 4

Since the Global Opportunities Fund launched in October 2009, the FTSE All World Index returned 3.1%, whilst the Fund returned 2.9%. Generally more cyclical areas such as Materials and Technology sectors led the market, with Financials and Telecoms underperforming. Geographically, the last quarter of the year saw the US, Asia and selected emerging markets outperforming Europe and Japan quite sharply.

The Fund lagged the market slightly over the period. Performance benefited from holdings such as Diagnosticos da America, a Brazilian diagnostics service provider, and Japan Tobacco. Tsuruha, a Japanese pharmacy chain, whilst continuing to operate well, saw its shares lag over the period.

### Activity

Whilst many positions remained in place over the quarter, there were some changes at the stock level. The Fund increased its position in Anhanguera Educacional by taking advantage of a placing, which had led to short term weakness in the share, as the extra supply became visible. Education spending is increasing sharply in Brazil, boosted in part by favourable government policies, and the company is taking advantage of this whilst also increasing market share in a fragmented market.

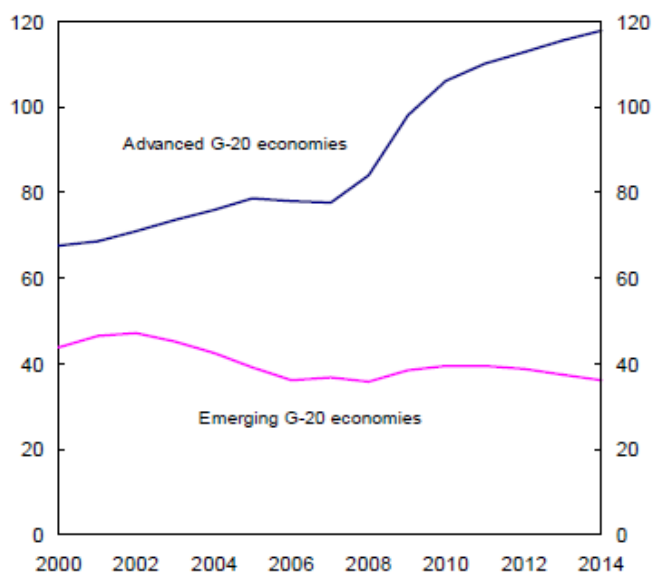
We reduced our position in Hong Kong real estate, by selling Sun Hung Kai. The supportive environment had led to a sharp appreciation in property prices over the year which became reflected in an increase in the company's valuation. The Hong Kong authorities also began to attempt to cool the property market down. The potential for asset inflation in Asia remains, and we started a new position in a Singaporean real estate investment trust, CapitaCommercial, which was on a large discount to book value at the time of purchase and provided a more attractive valuation than Sun Hung Kai, whilst providing exposure to high quality office buildings in Singapore.

The credit crunch has resulted in some sectors withdrawing capacity sharply, either to adjust their cost base or through lack of easily available funding. This trend has been part of the investment case in Samsung Electronics. A visit to Japanese company Taiyo Yuden confirmed that a similar situation had arisen in their markets, such that their competitive product offering, lean inventories, good cost control and tightness in capacity, had contributed to a sharply improved outlook. The shares, as with so many stocks in Japan, are on a lowly valuation not reflective of such an improvement. Consequently a new holding was started in Taiyo Yuden.

### Outlook

The high amounts of leverage that led us into the credit crisis have not disappeared. As we saw in Japan after the bursting of the 1989 bubble, government leverage tends to rise sharply in the aftermath. The situation is similar post the credit crisis. Debt has been transferred from the private sector to the government, and levels are increasing as fiscal stimulus spending is increased whilst government revenues fall. The deleveraging that is required might be happening at an individual and corporate level, but not at a governmental level in the developed world. The emerging world is facing a different outlook, given the combination of lower debt and decent growth in response to global stimulus. These lead to the potential divergence in the chart below.

## Government Debt as a % of GDP



Source: IMF Estimates

Monetary policy remains highly stimulative and seems to be yielding responses in the form of higher levels of economic activity, albeit from very low levels. The key beneficiaries for us are the economies and countries that can benefit without the ball and chain of high debt exposure. The reason for this is simple: high debt levels can constrain economic activity in a recovery. Several recent studies from Reinhart & Rogoff<sup>1</sup> to McKinsey<sup>2</sup> illustrate this point clearly. Indeed, we can see it first hand from the encouraging recoveries of countries whose banking systems are operating well, and are not impacted by the unwind of a lengthy build-up in credit levels. We continue to prefer areas with a manageable level of financial gearing or debt, and this is a key influence on portfolio positioning, in terms of growth potential, but also for protection from the negative effects of a withdrawal of highly stimulative monetary and fiscal policy.

This feeds into more than one of our current themes: the debt divide highlighted in the *Deleveraging* and *Some Developing Economies* themes. While many long term trends remain supportive, we have less exposure to emerging markets at the end of the quarter than the longer term average for the fund. We can still find strong opportunities, but our exposure is slightly reduced, reflecting higher valuation levels being found. We maintain exposure to some growth trends in very selective emerging markets, and generally have exposure to more defensive cash flows in developed markets, for example the largest two holdings being Pfizer and Roche.

Over 2010, we expect heightened concern over the withdrawal of stimulus, initially through the ending of unorthodox economic policy, and for the market to be 'twitchy' about the effects of rates rises from the economies that can tolerate them. However, for the time being it looks like these will remain sluggish responses, for example China is looking to slow loan growth from an aggressive >30% in 2009, to a healthy 18% for 2010... this is still in marked contrast to over-indebted areas of the world. This continues to highlight the two-speed nature of economic prospects for 2010.

**Alex Stanić**  
**Head of Global Equities**

<sup>1</sup> *This time is different: Eight centuries of financial folly*, Reinhart & Rogoff, 2009

<sup>2</sup> *Debt & Deleveraging*, McKinsey Global Institute, 2010

## Fund Facts

Launch date	8 October 2009		
Fund manager:	Alex Stanić		
IMA sector:	Global Growth		
Benchmark:	FTSE All World		
Tracking error range:	N/A		
Product capacity:	£2 bn (pooled & segregated)		
XD dates:	1 April & 1 October		
Dividend/Accumulation payment date:	31 May and 30 Nov		
Share class:	A	B	Z
Launch price (shares):	100.00p	250.00p	500.00p
Share classification:	Retail	Asset Manager	Institutional
Type of shares:	Income	Accumulation	Accumulation
Fund charges:			
Annual	1.75%	1.00%	0.00%*
Initial (up to)	5.25%	5.25%	5.25%
*AMC charged outside the Fund			
Minimum investment			
Initial	£1,000	£2.5 million	£5 million
Subsequent	£500	£25,000	£50,000
Sedol	B3S4FZ4	B3QH28	B3QJ1B9
ISIN	GB00B3S4FZ41	GB00B3QH281	GB00B3QJ1B92
Bloomberg	RMGLOPA	RMGLOPB	RMGLOPZ

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