

RIVER AND MERCANTILE
ASSET MANAGEMENT

UK Equity Fund I Quarterly Report
September 2009

River and Mercantile

September 2009

UK Equity Fund – Quarterly Report

Fund Aim

The investment objective of the Fund is to achieve capital growth by investing in a portfolio of investments which shall primarily consist of UK equities capitalised in the FTSE 350 index which offer the prospect of superior long term growth.

Portfolio Summary			Risk Analysis Summary	
Strategy AUM	£232.4m		Portfolio Volatility	16.07%
Strategy Capacity	£2bn		Benchmark Volatility	16.09%
Number of stocks	80		Tracking Error	2.44%
Largest Holding	HSBC	7.53%	Portfolio Beta	0.99
			Active Money	41.58%

Performance as at 30 September 2009

Retail "A" Class Shares	Fund ¹	Index *	Difference
1 Month	4.18%	4.72%	-0.54%
3 Months	22.32%	22.38%	-0.06%
12 Months	10.80%	10.80%	0.00%
Since Inception ³ (%p.a.)	-3.47%	-4.78%	1.31%

Institutional "Z" Class Shares	Fund ²	Index*	Difference
1 Month	4.33%	4.72%	-0.39%
3 Months	22.79%	22.38%	0.41%
12 Months	12.47%	10.80%	1.67%
Since Inception ³ (%p.a.)	-2.01%	-4.78%	2.77%



Source: River and Mercantile Asset Management LLP

*Index: FTSE All Share (Total Return)

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

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

³Inception date 25th February 2008

UKEQ Quarterly Report: Q3 2009

Quote for the Quarter

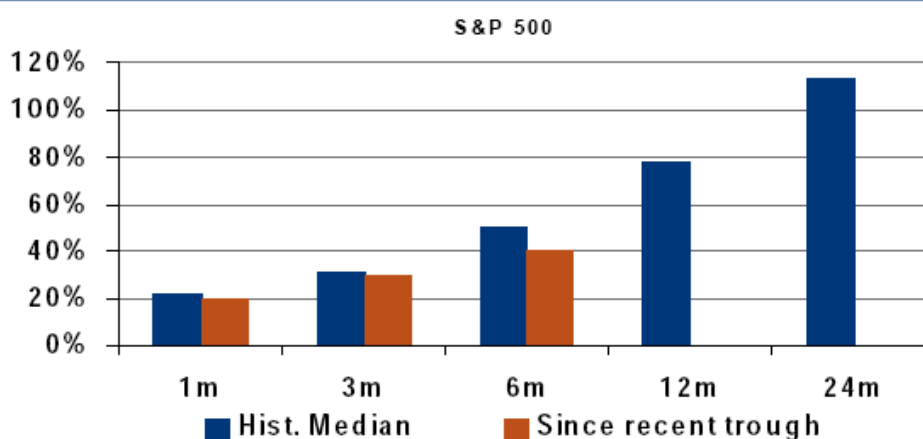
"The most powerful force in the universe is compound interest"

Albert Einstein

Key Observation

Few people can believe the speed of the equity market recovery, but, we have probably been here before. Indeed if one actually looks at the historical numbers, and Merrill Lynch have done just that, then the speed of this rally has been bang in line with the twenty recovery phases that have been observed since the 1930's. The key to this observation is the extent of the fall – the bigger the fall over the last eighty years, the larger the recovery – and the fall this time around was huge, so with the world no longer coming to an end, stock markets have been prepared to return towards more normal medium-term valuations.

Chart 1: Percentage of prior peak recovered over time



Source: BofA Merrill Lynch Global Research US Equity Strategy, Bloomberg, Standard & Poor's

Market background

3rd Quarter :

Seven quarters of negative returns have been followed by two quarters of double-digit positive returns for the FTSE All-Share Index. We wrote at the end of Q2 that the Index returns were the best quarter since 2003 but in this latest quarter we saw the best return for the FTSE 100 in the history of the Index. The FTSE All-Share returned 22.4% with monthly returns close to 8%; the first two months of the quarter were strongest. September was weaker but the Index still gained nearly 5%. UK equities was the best performing asset class last quarter outperforming corporate bonds, global equities and, of course, government bonds. Within UK equities, small caps outperformed again, up 30% over the quarter (excluding Investment Trusts, it was up 35% over the period, although the Fledgling and AIM indices were both behind the All-Share). The FTSE 100 was the worst performing size grouping up "only" 22%. Financials provided the strongest contribution to the Index return with the mega cap oils ensuring Oil & Gas was the worst sector.

How did we perform and why?

The portfolio returned 22.8% versus 22.4% for the Index. Following a difficult period earlier in the year it would have been preferable to report a stronger period of outperformance during Q3. As it was, marginal outperformance was the order of the quarter, but nonetheless a strong absolute return. On most occasions the tendency for portfolio managers to have an "action bias" (i.e. churning a portfolio), particularly after a period of poor performance, should be frowned upon. Whilst we are engaged in 'active' management, the majority of the time we are well advised to remember that inaction is also a decision. However, during the past six months it has been important that action was indeed undertaken, particularly during the April to June quarter, in order that we could adequately participate in this rally. Whilst we have

had slightly higher than average turnover, process implementation continues to improve. Quoting from Montier "The management of return is impossible, the management of risk is illusory, but process is the one thing we can exert an influence over".

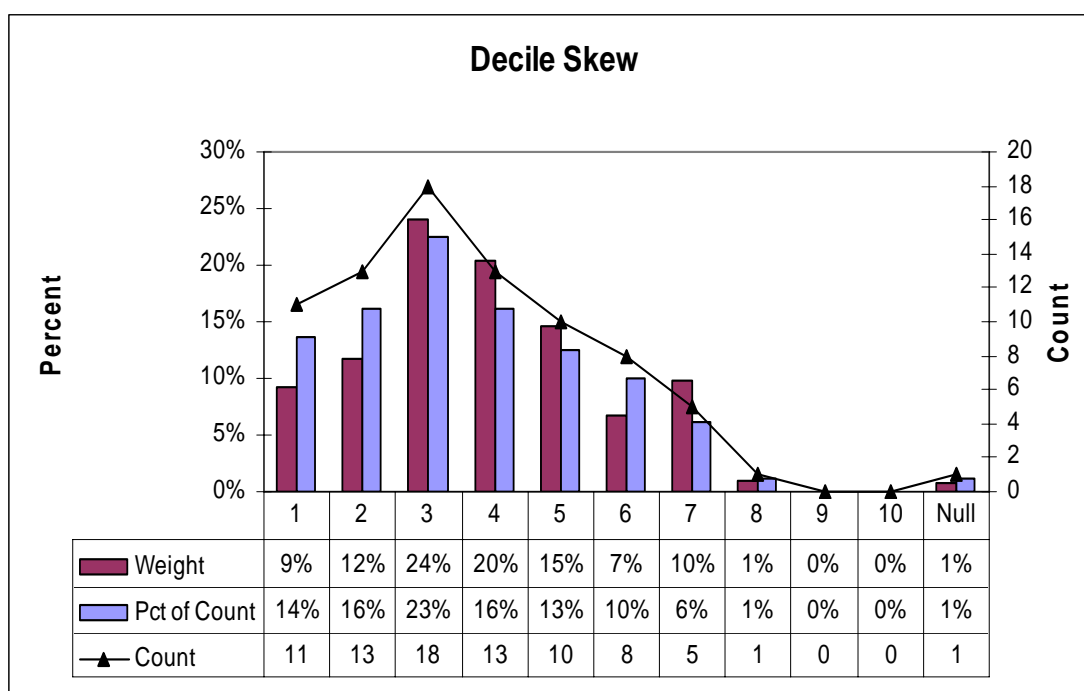
Key performance contributors for the quarter:

Positive stock contributions were from **Daily Mail** as advertising trends began to stabilise, **Inchcape** as the market looked forward to a rebound in auto sales globally, **Regus** as they updated the market on stabilising business trends, **Persimmon** as house prices began trending back up and **Delta** with a recovery its industrial services underway. At a sector level our financials holdings provided the strongest contribution to returns.

Negative stock contributions came from **Reed Elsevier** as it surprised the market with a rights issue, **Debenhams** which was unfairly sold off after a strong statement due to gross margin concerns, **888** which disappointed on short term trading and **Debenhams** a retailer giving up earlier gains. A small cash raising at the beginning of September after the markets strong rise through July and August also negatively impacted performance towards quarter end.

Does the portfolio reflect our philosophy and process?

The chart below shows that our strategy continues to have a significant skew towards high scoring stocks. It should be noted that one of our high conviction names is **Booker**, the cash and carry wholesaler, but due to it transitioning from AIM to the FTSE 250, it is temporarily without a Moneypenny score and so appears in the skew as a 'null'. Our category exposure has stayed relatively constant over the last three months, with 62% in Quality, 22% in Recovery, 12% in Growth and one new holding in the Asset Backed (3%) category.



Source: River and Mercantile Asset Management LLP

What themes occupy us at the moment?

This quarter I have chosen to make observations on factor returns, the stock market cycle and compounding returns.

Factor Returns

2009 has turned out be an extraordinarily bad year for quantitative processes that use Momentum as a factor, and Q3 turned out to be no exception. Collins Stewart's Quest model shows returns to their value, quality and momentum factors below; Price Momentum and Earnings Momentum, in particular, again had a torrid time.

QUINTILES	UK	
	1 month	3 months
VALUE	2%	4%
QUEST™ Valuation	3%	1%
QUEST™ Mkt-To-Bk	-4%	6%
EV/ Sales	2%	2%
Dividend Yield	3%	-1%
P/E	4%	1%
QUALITY	5%	-6%
CFROC Spread	1%	-5%
Capital Growth	3%	3%
Equil Growth	4%	5%
Fixed Charge Cover	4%	-8%
CFROC Change	3%	-4%
MOMENTUM	-3%	-10%
9m Rel Trend	-3%	-14%
100/200 DS	-2%	-5%
12m Range	-3%	-12%
30/90 DS	-2%	2%
EPS Momentum	-2%	-10%
triAngle™	1%	-8%

Source: Collins Stewart

Over the year to date the picture is even more extreme, with returns to a range of factors on a global basis shown below. For someone that has historically tilted towards a low beta, high quality, momentum portfolio with valuation support – this set of conditions could not have been any worse for me. Momentum – well recognised by academics and practitioners as a useful investment tool – has proved itself anything but useful in 2009. On numerous measures, momentum strategies are suffering shockingly. According to calculations from the SG Quant team, buying stocks with positive versus negative earnings revisions would have lost 15% globally this year. But this is just a blip when compared to the returns from a 12-month price momentum strategy. According to long term data, investors would have lost 70% their money during the last year, the worst returns since the 1930s.

Year to date investment style performance by region (sorted by global performance %)

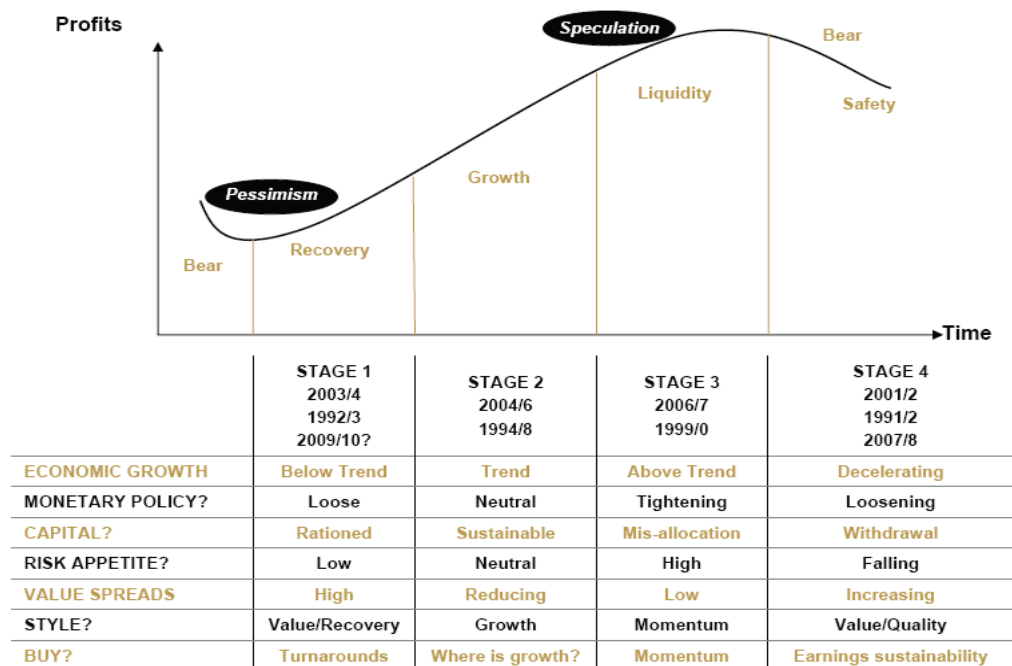
Investment Styles	Global	US	Eurozone	UK	Japan
Low versus high price to book	18.2	13.2	25.5	19.6	20.8
Small versus large market capitalisation	7.4	8.3	0.5	18.8	7.5
High versus low Year 2 EPS growth	7.1	20.2	2.3	-7.2	-15.1
High versus low historical EPS growth	4.5	4.5	0.3	4.2	10.8
Low versus high P/E ratios	3.9	3.5	12.9	5.1	-9.5
1-month price reversal strategy	2.1	0.6	8.4	0.7	-2.1
High versus low dividend yield	0.1	-11.0	14.3	0.3	17.6
High versus low historical EPS stability	-5.6	-10.1	-2.8	-9.1	7.6
High versus low long-term EPS growth	-8.2	-9.4	-2.3	-4.6	-15.4
High versus low relative price momentum (3m mav)	-11.8	-12.8	-17.2	-1.5	-7.1
High versus low EPS momentum	-15.3	-14.4	-12.4	-21.8	-17.5
High versus low Year 1 EPS growth	-15.3	-13.3	-11.8	-20.7	-23.2
Low versus high dispersion of analysts' forecasts	-21.0	-19.4	-21.7	-31.5	-17.7
Low versus high Beta	-24.1	-24.7	-25.3	-28.2	-17.1

Source: SG Quantitative Equity Strategy Research

Do these extremities in factor returns and more volatile markets concern us for the future? On the contrary, whilst within PVT, the Timing has hindered for most of 2009 (in contrast to 2008), it is usually the case that momentum begins working again at this stage of the cycle. Our multi-factor, multi-category approach, combining quantitative screens with fundamental research as well as our stock market cycle work leave us optimistic that the combination should deliver consistently strong risk adjusted returns in future.

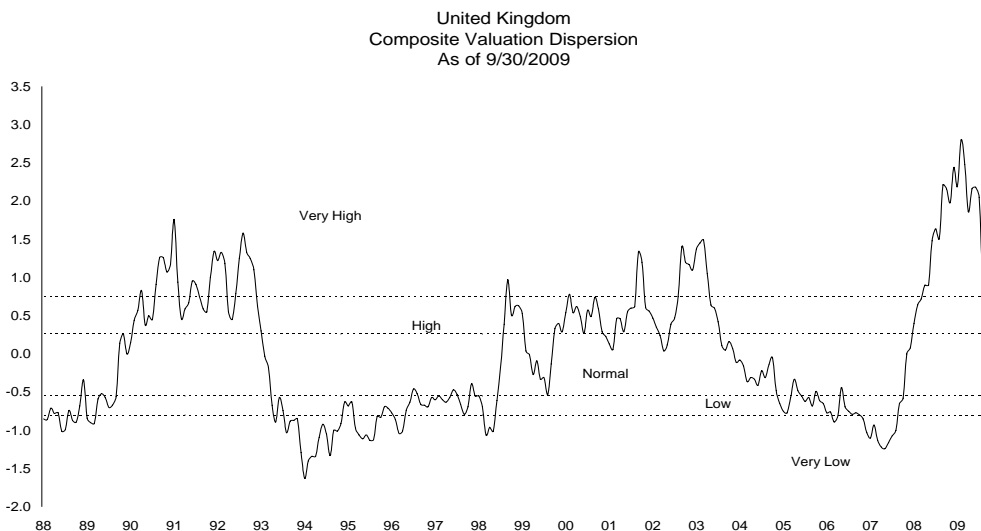
The Stockmarket Cycle

We continue to frame the current environment in the context of the stock market cycle.



Source: River and Mercantile Asset Management LLP

At the moment we are moving through the recovery stage of the cycle. Economies are now growing again, but with the negative output gap being so large there is little pressure to tighten monetary policy. Risk appetite has returned, but value spreads are still above average (see chart below); return on capital is depressed but starting to recover, with profits now beating expectations. As a result earnings revisions have turned positive, a key driver for the equity market and recovery type shares in particular. Our cycle work suggests that we are in the middle of the recovery stage.



Source: Bernstein

At this point we should consider what would constitute a warning bell regarding where we are in the cycle. The two key components of our analysis are the value dispersion chart above (value dispersion still high), and the yield curve (still steep). So when value dispersion is modest, and the yield curve is flattening (i.e. short term interest rates moving up to par with long term government bond yields) then the recovery trade will likely be over.

Compounding

Finally a subject that is not directly related to the portfolio but is nonetheless an important lesson that I had drummed in to me from an early age which I hope you agree is worth sharing. The complexity of the pensions industry can sometimes leave people confused as to how they will ever save for their retirement. Trying to solve the current pensions shortfalls is a difficult and challenging task, and one that I shall leave people far brighter than I to solve. However, how do we avoid a pensions and savings crisis in future? The proposal I would make is to teach young people about compounding.

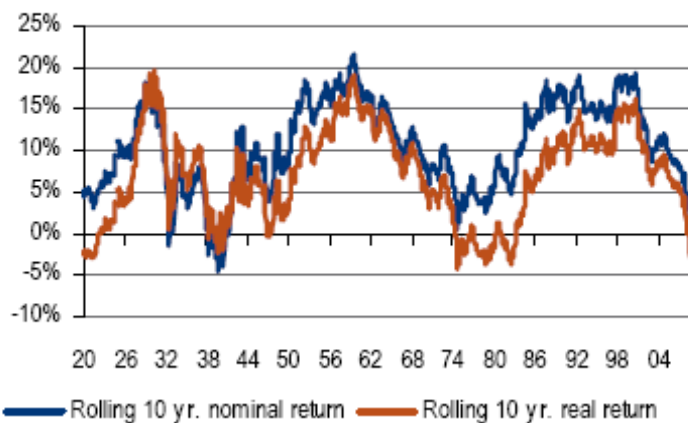
The chorus of voices criticising our pensions industry and pension deficits continues to grow. Whilst we can blame long term credit cycles, animal spirits, government intervention or a bloated pensions industry for some of the problems, it seems to me that one reason there is a crisis at all is that people on average simply forgot how to save enough of their income from an early age and leave it compounding. It is perfectly understandable as saving is, at first glance, a particularly boring concept for a young person. However if they understood the rewards that compounding can bring they may be more inclined to save more. Understanding compounding makes saving much more exciting.

In order to remind myself of the power of compounding, I revisited a well known written piece of research by the late Richard Russell. It reads broadly as follows:

Investor B (age 19) pays £2,000 per year into his tax-free savings/pension for 7 years at an average growth rate of 10% (I shall keep the maths easy and assume a 10% compound return). After 7 years he makes no more contributions – he is finished. Investor A makes no contributions until age 26 (this is the age when Investor B has finished contributing). Then A continues faithfully to contribute £2,000 every year until she is 65 (at the same theoretical 10% rate) i.e. for 40 years.

The study reveals incredible results as investor B (the young chap contributing for 7 years) retires at aged 65 with more money (£973,704) than Investor A (£944,641) (the slightly older lady contributing for 40 years). If you consider their net earnings, i.e. reducing these final totals by the original amounts invested, so for Investor B (£973,704 - £14,000 = £893,704) and for Investor A (£944,641 - £80,000 = £864,641) it reveals that investor A has seen their £80,000 investment grow 11 fold - a very good result. Investor B (saving since 19) has seen his £14,000 investment increase a staggering 66 fold. Albert Einstein was right - with compounding, saving can be really quite exciting. (Please let me know if you would like the full spreadsheet behind this study). This brings us to the current market. In the short term, who knows the market's direction but over the last 90 years or so whenever the 10 year rolling return from the stock market has been negative, it has resulted in positive real returns over the subsequent 10 years. The chart below brings us up to date following the recent rally and still suggests that taking a medium term view should provide positive real returns for investors.

Chart 3: S&P 500 10yr annual returns



Source: BAS-ML

Portfolio Activity

Purchases

We bought a position in **Dana Petroleum** where, despite caution over oil stocks more generally, we felt the combination of quality and valuation upside was attractive. A high quality business with a strong track record of growth, Dana produces from 34 wells in 8 different countries giving good diversification relative to a number of other mid-cap exploration and production companies. Growth looks likely to continue with several oil & gas fields coming on stream this year and next. It also has a number of good development prospects in the North Sea as well as an extensive exploration programme. As with many of the larger E&P's it is the asset management skills of the management team that are crucial to the ongoing success of the business. The attraction of Dana is the base-load of cashflow, generated by its existing diversified portfolio of production assets, and the high discovery rate (55% is the highest drilling success rate in the industry by number of drill holes). Numerous discoveries have been made in 2008 and early 2009.

Logica is one of Europe's leading IT Services companies competing with the likes of Atos Origin and Cap Gemini. The attraction at this stage is a recovery in margins and valuation where it looks cheap on a range of metrics; new management has had time to make an impact, the order-book has improved, IT outsourcing peers reporting improving results and the stock has to date lagged an outperforming IT sector. Timing has recently improved.

British Airways was trading at trough multiples of trough earnings. With premium traffic likely to improve as investment banking and business travel recover, it represents a compelling recovery investment. The market has focused on the negatives of industrial action, pay freezes, pension deficits and falling domestic travel, but what is not priced in is its improving market position as Ryanair and Easyjet are unable to undercut them any more and premium passenger growth improving from here.

We have continued to build up our Asset Backed exposure so that it is now 5% of the portfolio. The latest purchase is **Intermediate Capital Group**, a top decile scoring stock. It has a very strong market position in the provision of mezzanine finance to the private equity community, it has conservatively provisioned its credit book, and it has raised fresh equity to strengthen the balance sheet and allow it to write new business at the attractive margins that are now available. The shares were trading below book value when we purchased them, an attractive valuation considering the fact that over the long term they have generated a 20% Return on Equity.

Existing investments we have become more confident about (purchases)

The healthcare investment opportunity is worth commenting on. In the early nineties the recovery phase of the stock market cycle was similar to today - the recession was led by real estate, banks were in trouble, and cyclicals became very depressed so that when they bounced back they did so with a vengeance. The result was that some quality sectors just became sources of cash for the more exciting recovery stories, and the sector that de-rated most due to the US Democrats' desire for reform was healthcare - these stocks de-rated to half their historic valuation metrics, providing a great buying opportunity. Fast forward to 2010, and there appears to be a similar opportunity appearing - the sector is led by the US market, where healthcare companies are now trading 100% cheap relative to long-term valuations as again investors focus elsewhere and worry about Obama's reforms. Their top-line is mature but with cost efficiencies and mergers they can protect their prodigious cash flow. When the recovery stage of the cycle is complete (in 2010) sectors like healthcare could repeat their mid-nineties trick of becoming the quality leaders of the pack.

As a result the current phase of the cycle should provide a great opportunity to go materially overweight the healthcare sector. The sector is now mature especially as major drugs come off patent; however cost cutting and merger activity is allowing the prodigious cash generation of pharmaceutical companies to be maintained. The free cash flow yields of **AstraZeneca** and **GlaxoSmithKline** are too high and we have maintained overweight positions.

Despite recent strength we have increased our investment in **Barclays**. This is because its profit fundamentals have been dramatically improving over the last few months - funding costs have collapsed to low levels, pricing of products is very firm reflecting the lack of

competition and therefore lending margins are now very attractive, and perhaps, most importantly, default rates on secured loans in the UK have actually started to fall. The UK banks are on no more than 1x book value, valuations that reflect post-Lehman Armageddon rather than today's improved situation.

Sales

In order to fund the new purchases we sold a number of existing holdings.

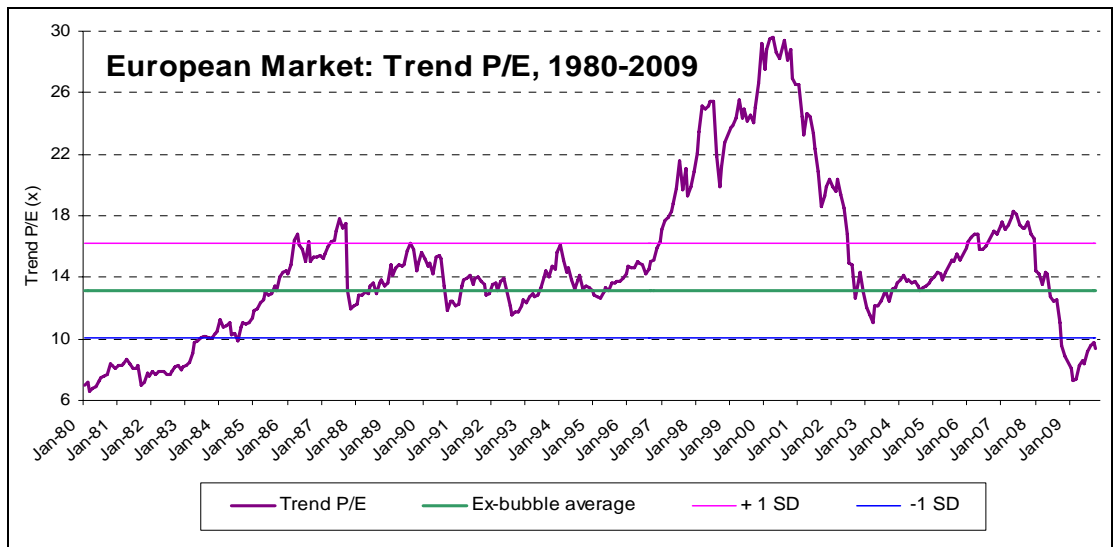
We chose to sell **Schroders, Henderson** and **3i**, all recovery investments, due to rich valuations and preferable exposures in London Stock Exchange and Close Brothers giving us exposure to the rising stock market. We also sold **United Business Media**, due to late cycle earnings risk, **Standard Life** due to valuation (on a 50% premium to the sector). We also reduced house builder **Persimmon** which had performed well following some strong cash generation and a write-back of the value in its land bank. However, the valuation had moved ahead to 1.4x book value which looked up with events and so we chose to reduce what is an early cycle investment.

Outlook

Fundamental concerns are balanced by reasonably attractive equity valuations. With policy makers understandably showing no signs of slowing their quantitative easing and fiscal spending policies the market is moving rapidly from concerning itself with deflation less than a year ago to concerns of debasement of the reserve currency (the Dollar) and future inflation. We see this most clearly in steepened yield curves. Whilst this clearly helps the banks repair margins it might also create one of two possible problem scenarios. The first is that the yield curve continues to rise short term eventually choking off the debt markets (well understood threat of either monetary tightening being applied prematurely and as a result I think unlikely or the market simply pricing in a future inflation risk – becoming more likely).

However, the second and more dangerous scenario stems from the apparently consensus view that the dollar will continue to slide (in doing so replacing the Yen in funding the carry trade to buy risk assets elsewhere). This is based on the belief that the Fed's aggressive expansion of its balance sheet will increase supply of Dollars (the 'printing presses' rolling) in turn reducing demand for Dollar assets and therefore driving the Dollar lower. Global currency debasement (reflationary) may well be playing out as I write this but there has been less focus of late on the fact that Western economies have yet to deleverage, with actions so far only allowing debt to be more easily serviced. The large number of mortgage resets still to occur over the next 18 months in the US, and the as yet unrevealed commercial real estate debt write-offs, could yet create a greater and opposite effect. Dollar debt write-offs reduce the supply of Dollars in the world and may yet drive the Dollar higher (reduce supply and price rises) again setting off another round of risk aversion. While this deflationary scenario is, by my own admission, less likely due to the determination of central banks and governments (don't fight the Fed), the markets are in danger of ignoring this risk when a relapse is in my mind a possibility.

Turning to the stock market, whilst equity markets have rallied strongly from their March nadir they are still well below recent peaks and remain reasonably valued. The chart below shows the Graham and Dodd PE (trend earnings, stripping out the cyclical impact) for the European market. A trend PE of 9.5, and earnings yield over 10% is very supportive. The UK market looks cheaper still.



Source Mirabaud

To complement an attractive valuation the profit cycle has turned positive, with earnings upgrades ahead of expectations. And the valuation dispersion within the UK equity market remains above average, suggesting continued upside returns for sensible PVT investments. Setting aside any worries associated with the speed of the recent rally and the deleveraging cycle, the outlook would seem broadly positive.

Dan Hanbury
Portfolio Manager

Portfolio Statement

	Holding	Market Value	Percentage
		£	%
HSBC	542,428	3,882,699.62	7.53%
BP	611,700	3,382,089.30	6.56%
Royal Dutch Shell 'B' Shs	187,900	3,261,004.50	6.32%
Vodafone Group	1,937,200	2,714,017.20	5.26%
GlaxoSmithKline	200,750	2,468,622.75	4.79%
Barclays	499,500	1,847,650.50	3.58%
AstraZeneca	61,050	1,712,147.25	3.32%
British American Tobacco	79,050	1,551,356.25	3.01%
Rio Tinto	53,448	1,425,992.64	2.76%
Tesco	355,550	1,420,422.25	2.75%
BG Group	111,350	1,209,261.00	2.34%
Anglo American	57,000	1,135,725.00	2.20%
BHP Billiton	57,600	983,923.20	1.91%
Pace	301,910	687,147.16	1.33%
BAEsystems	194,800	680,241.60	1.32%
Prudential	108,049	650,130.83	1.26%
Centrica	215,250	541,569.00	1.05%
Mcbride	281,850	540,306.45	1.05%
Amlin	139,000	533,343.00	1.03%
Legal & General	592,550	520,258.90	1.01%
National Grid	80,150	483,705.25	0.94%
British Land	101,555	482,487.81	0.94%
Hiscox Ltd	138,516	477,464.65	0.93%
Segro	129,406	475,437.64	0.92%
Delta	245,000	440,265.00	0.85%
Daily Mail & General Trust	95,580	439,094.52	0.85%
Booker Group	1,051,214	432,048.95	0.84%
Xchanging	192,158	424,092.71	0.82%
Intermediate Cap Group	140,000	418,460.00	0.81%
Chemring Group	16,528	404,026.96	0.78%
Close Bros Group	49,550	394,764.85	0.77%
Babcock International	69,350	394,046.70	0.76%
Experian	74,800	393,597.60	0.76%
London Stock Exchange Group	45,462	389,472.95	0.76%
Logica	297,550	386,815.00	0.75%
Dana Petroleum	27,283	383,189.74	0.74%
FirstGroup	92,704	382,682.11	0.74%
Xstrata	41,186	380,146.78	0.74%
JKX Oil & Gas	136,461	378,815.74	0.73%
Regus	377,100	378,231.30	0.73%
ITE Group	308,097	377,726.92	0.73%
Thomas Cook Group	161,750	376,068.75	0.73%
Robert Wiseman Dairies	88,950	374,123.70	0.73%
Diageo	38,750	371,883.75	0.72%
BT Group	279,037	362,469.06	0.70%
Home Retail Group	131,200	356,601.60	0.69%
Hill (William)	193,750	341,387.50	0.66%
BSkyB	59,600	340,435.20	0.66%
Reed Elsevier	69,700	326,335.40	0.63%
Sage Group	138,450	323,280.75	0.63%
Imperial Tobacco Group	17,450	315,408.75	0.61%
Aquarius Platinum Limited	110,259	306,685.41	0.59%
St James Place	117,179	305,016.94	0.59%
CSR	64,767	304,340.13	0.59%
Lloyds Banking Group	292,714	303,251.70	0.59%
Land Securities	48,299	301,723.85	0.58%
Drax Group	63,950	301,332.40	0.58%
Homeserve	18,492	294,300.18	0.57%
British Airways	132,050	291,170.25	0.56%

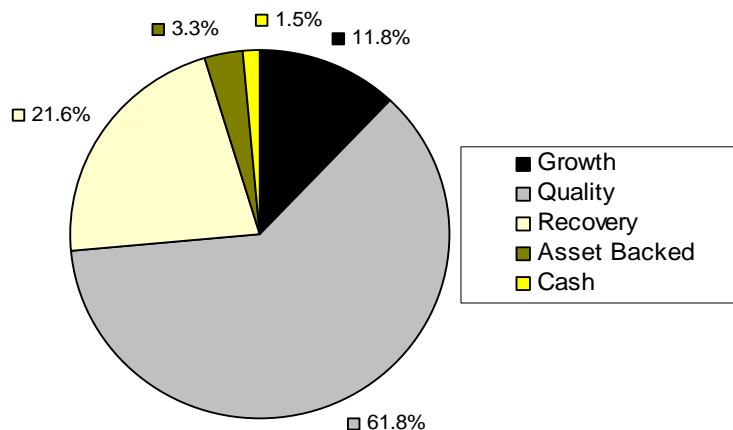
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	Holding	Market Value	Percentage
		£	%
Galiform	360,000	285,120.00	0.55%
Aveva Group	29,447	270,765.17	0.52%
Beazley	226,300	267,034.00	0.52%
Unilever	14,900	264,847.50	0.51%
Catlin Group	74,240	260,730.88	0.51%
Invensys	88,750	258,262.50	0.50%
BBA Aviation	161,434	256,034.32	0.50%
Persimmon	55,358	252,543.20	0.49%
Marks & Spencer	69,550	251,771.00	0.49%
Kier Group	21,000	249,270.00	0.48%
Connaught	58,944	238,428.48	0.46%
Debenhams	313,150	237,367.70	0.46%
HMV Group	211,500	221,652.00	0.43%
Charter International	31,300	214,874.50	0.42%
Computacenter	66,050	211,161.85	0.41%
888 Holdings	213,380	195,882.84	0.38%
Royal Bank Of Scotland	370,450	195,597.60	0.38%
PV Crystalox Solar	255,000	189,720.00	0.37%
Morgan Sindall	23,384	155,784.21	0.30%
Trading Acct -British Pound Sterling	777,815.32	777,815.32	1.51%

Source: River and Mercantile Asset Management LLP

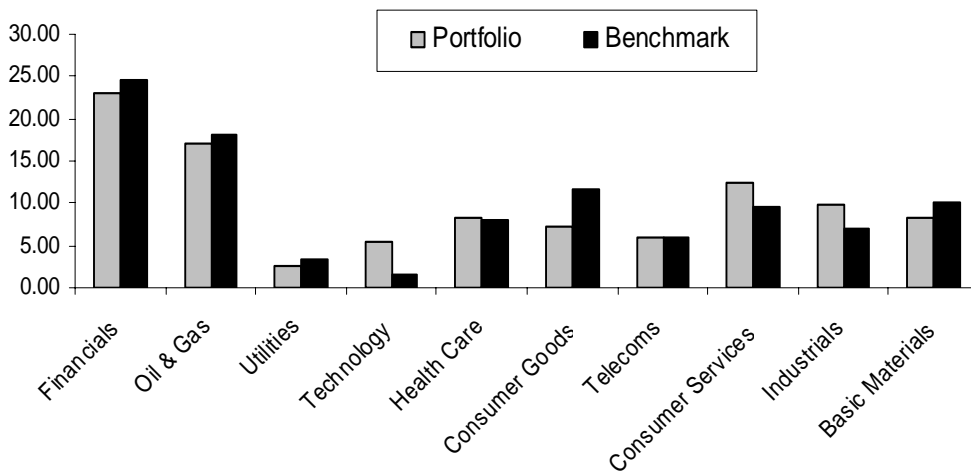
Portfolio Characteristics

1. PVT Category Weightings



Source: River and Mercantile Asset Management LLP

2. Sector Weights



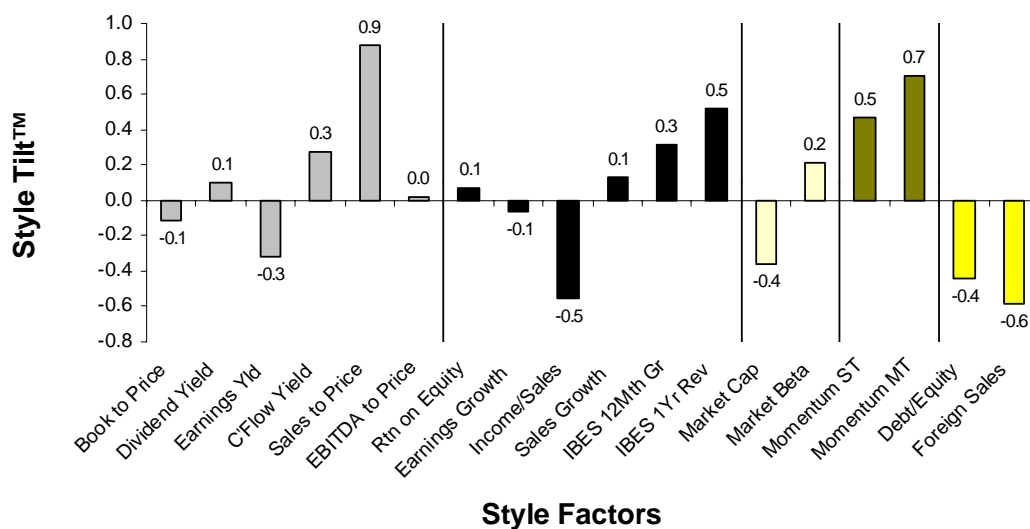
Source: Style Research

3. Market Cap Splits

Index	Portfolio	Benchmark	Active
FTSE 100	71.0%	85.8%	-14.8%
FTSE 250	25.1%	11.9%	13.2%
FTSE Small Cap	1.6%	2.3%	-0.7%
Other Main Market	0.8%	0.0%	0.8%
Cash	1.5%	0.0%	1.5%

Source: River and Mercantile Asset Management LLP

4. Portfolio Style Analysis



Source: Style Research

5. Top 10 Overweight / Underweight Positions

Overweight	Sector	Portfolio	Weight		Active
			Benchmark	Active	
Royal Dutch Shell B	Oil & Gas	6.42	3.09	3.33	
Pace	Technology	1.35	0.04	1.31	
McBride	Consumer Goods	1.06	0.02	1.04	
Barclays	Financials	3.64	2.67	0.97	
Amlin	Financials	1.05	0.12	0.93	
Hiscox	Financials	0.94	0.08	0.86	
Booker Group	Consumer Services	0.85	0.00	0.85	
Delta	Industrials	0.87	0.02	0.85	
Xchanging	Industrials	0.83	0.03	0.81	
Daily Mail & General Trust	Consumer Services	0.86	0.08	0.78	

Underweight	Sector	Portfolio	Weight		Active
			Benchmark	Active	
Royal Dutch Shell A	Oil & Gas	0.00	4.14	-4.14	
Standard Chartered	Financials	0.00	2.03	-2.03	
Reckitt Benckiser	Consumer Goods	0.00	1.42	-1.42	
SabMiller	Consumer Goods	0.00	1.16	-1.16	
Unilever	Consumer Goods	0.52	1.49	-0.97	
Diageo	Consumer Goods	0.73	1.58	-0.85	
Aviva	Financials	0.00	0.80	-0.80	
Cadbury	Consumer Goods	0.00	0.71	-0.71	
Scottish & Southern Energy	Utilities	0.00	0.71	-0.71	
Tullow Oil	Oil & Gas	0.00	0.59	-0.59	

Source: Style Research

Portfolio Attribution Risk Report

1. Stock Level Performance Attribution

Best Performing	Average Active Weight	Contribution to Active Return
Daily Mail & General Trust	0.69%	0.25%
Regus	0.76%	0.24%
Delta	0.46%	0.23%
Computacenter	0.70%	0.22%
British Airways	0.28%	0.20%
Inchcape	0.63%	0.19%
Travis Perkins	0.26%	0.18%
Legal & General	0.57%	0.18%
Charter International	0.51%	0.17%
Reckitt Benckiser	-1.48%	0.16%

Worst Performing	Average Active Weight	Contribution to Active Return
Cash Pounds Sterling	3.24%	-0.79%
Standard Chartered	-1.87%	-0.25%
Royal Dutch Shell B	3.44%	-0.24%
Cadbury	-0.56%	-0.19%
888 Holdings	0.40%	-0.18%
Debenhams	0.54%	-0.16%
Compass Group	0.08%	-0.16%
HMV Group	0.55%	-0.16%
William Hill	0.39%	-0.10%
Rio Tinto	0.10%	-0.10%

Source: Style Research

2. Marginal Contribution to Annualised Risk

A further 1% (of the portfolio) invested in the security will affect annualised risk as indicated.

Securities Held	Marginal Contribution bps	Securities Held	Marginal Contribution bps
Highest		Lowest	
Booker	0.54	BHP Billiton	-0.05
Pace	0.30	Rio Tinto	-0.05
CSR	0.10	Xstrata	-0.05
Debenhams	0.10	BP	-0.03
ITE Group	0.08	BG Group	-0.07
Securities Not Held	Marginal Contribution bps	Securities Not Held	Marginal Contribution bps
Highest		Lowest	
Enterprise Inns	0.10	Quintain Estates	-0.10
JJB Sports	0.07	Ferrexpo	-0.07
Punch Taverns	0.06	Standard Chartered	-0.07
Misys	0.05	Fresnillo	-0.06
Findel	0.05	Randgold Resources	-0.05

Source: Style Research

Compliance Statement for Quarterly Fund Reports (Q3 2009)

There have been no material regulatory breaches which warranted reporting to the FSA over the period. At all times the fund has been invested in accordance with the Investment and Borrowing Powers as laid out in the Prospectus. River and Mercantile does not partake in Stock Lending.

River and Mercantile continue to operate in accordance with the strict compliance and risk management procedures laid out in the business's Compliance Manual and Policies and Procedures Manual. In August 2009 an independent third party compliance monitoring visit was undertaken by HedgeSupport. No material issues were raised and it was confirmed the business was operating in accordance with FSA regulations. In September 2009 Alexandra Parrish, our Compliance and Risk Manager, and Julian Cripps, our Chief Operating Officer, undertook the regular quarterly compliance monitoring visit to our Third Party Administrator and no breaches were identified or material issues raised.

The second quarter internal Risking Monitoring Programme was completed in August 2009 by our Compliance and Risk Manager with no material issues identified. Results and actions points were documented, approved and signed off by the Chief Operating Officer and Chief Executive Officer.

River and Mercantile continues to review and update its Policies and Procedures Manual (and corresponding Standard Operating Procedures) on an ad hoc basis throughout the year.

IMA Comparative Disclosure Table

Analysis of Trading in Period						Sources of Commissions Paid (£)			
Counterparty	Total (£)	Of Which:		Commission Paid (£)		Total	Average Commission (%)	% of Total Commission	
		% Net	% with Commission		Full service Rate				At other Rates
1	ALTIUM CAPITAL	£ 252,014.40	0.00%	100.00%	0.00%	£ 630.04	0.25%	1.52%	
2	ARBUTHNOT	£ 283,170.45	0.00%	100.00%	0.00%	£ 707.92	0.25%	1.71%	
3	ARDEN PARTNERS	£ 112,630.92	0.00%	100.00%	0.00%	£ 219.81	0.20%	0.53%	
4	CANACCORD	£ 165,000.01	0.00%	100.00%	0.00%	£ 412.50	0.25%	1.00%	
5	CAZENOVE	£ 1,038,109.59	0.00%	100.00%	0.00%	£ 1,985.60	0.19%	4.80%	
6	CITIGROUP	£ 2,007,137.58	0.00%	100.00%	0.00%	£ 3,277.53	0.16%	7.92%	
7	COLLINS STEWART	£ 2,726,036.28	0.00%	100.00%	0.00%	£ 3,894.51	0.14%	9.41%	
8	EVOLUTION	£ 727,230.10	0.00%	100.00%	0.00%	£ 1,644.93	0.23%	3.97%	
9	INVESTEC	£ 2,210,230.03	0.00%	100.00%	0.00%	£ 4,824.84	0.22%	11.66%	
10	KBC	£ 1,412,880.12	0.00%	100.00%	0.00%	£ 2,221.81	0.16%	5.37%	
11	LIBERUM	£ 493,427.28	0.00%	100.00%	0.00%	£ 616.78	0.12%	1.49%	
12	LIQUIDNET	£ 346,382.25	0.00%	0.00%	100.00%	£ 242.46	0.07%	0.59%	
13	MERRILL LYNCH	£ 1,644,484.71	0.00%	90.48%	9.52%	£ 2,498.21	0.15%	6.04%	
14	MIRABAUD	£ 1,737,861.88	0.00%	100.00%	0.00%	£ 2,545.12	0.15%	6.15%	
15	NOBLE	£ 263,615.84	0.00%	100.00%	0.00%	£ 659.03	0.25%	1.59%	
16	NUMIS	£ 932,081.33	0.00%	100.00%	0.00%	£ 2,330.21	0.25%	5.63%	
17	PANMURE GORDON	£ 876,557.91	0.00%	100.00%	0.00%	£ 1,349.36	0.15%	3.26%	
18	RBS	£ 2,617,783.41	0.00%	97.50%	2.50%	£ 4,868.95	0.19%	11.76%	
19	SANFORD BERNSTE	£ 906,572.89	11.11%	88.89%	0.00%	£ 1,285.20	0.14%	3.11%	
20	SOC GEN	£ 264,701.14	0.00%	100.00%	0.00%	£ 386.46	0.15%	0.93%	
21	STATE ST	£ 66,676.72	0.00%	100.00%	0.00%	£ 166.69	0.25%	0.40%	
22	UBS	£ 2,499,663.57	4.17%	95.83%	0.00%	£ 4,355.38	0.17%	10.52%	
23	WINTERFLOODS	£ 105,363.33	0.00%	100.00%	0.00%	£ 263.41	0.25%	0.64%	
Total		£ 23,689,611.74	0.63%	96.52%	2.85%	£ 41,386.75	0.17%		

Of the £3,894.51 paid to Collins Stewart 7.54% has been paid to a third party as per commission sharing agreement

Firm Wide Comparators

All Equity Trading	£564,151,404.70				£987,476.82
Trades: <u>UKEQ</u>	£23,689,611.74	0.63%	96.52%	2.85%	£41,386.75
Average Firm-Wide Commission Rate in Basis Points					17.5
<u>UKEQ</u> : Average Commission Rate in Basis Points					17.5

Source: River and Mercantile Asset Management LLP

	Trades	Total Value	Indirect Costs %	Indirect Costs £	Direct Costs %	Direct Costs £	Total Costs %	Total Costs £
Buys	149	£11,218,437.00	-0.0178%	-£ 1,996.88	0.6673%	£ 74,860.63	0.6495%	£ 72,863.75
Sells	165	£ 13,011,180.00	-0.0170%	-£ 2,211.90	0.1632%	£ 21,234.25	0.1462%	£ 19,022.35
Totals	314	£ 24,229,617.00	-0.0174%	-£ 4,208.78	0.3966%	£ 96,094.88	0.3792%	£ 91,886.09

Transactions costs include two types of costs, Direct Costs and Indirect Costs. They are summarised below:

Direct Costs = These are the fixed costs that include Commissions and Stamp Duty where applicable.

Our direct costs do not include PTM levy.

Indirect Costs = These are the costs that measure the price achieved in the Market against the Volume Weighted Average Price (VWAP) taken over the day of the executed Trade.

The comparison VWAP is based on the volumes and prices traded from the Market open to the Market close on the day in question. It is assumed that the dealer had the whole day to execute the trade.

Although this is not always the case as inflows of cash often do not take place until mid day, leaving the dealer only a few hours to transact the business.

Even when this happens River and Mercantile still includes the trades in the measurements.

This shows the ability of the Dealer to execute a single trade over a short period, usually one day.

The trades may be part of a larger deal, executed in smaller blocks.

Average Spreads

FTSE Small Cos	143.6
FTSE 250 :	33.5
FTSE 100 :	7.6

Fund Facts

Launch date	25 Feb 2008	
Fund manager:	Dan Hanbury	
IMA sector:	UK All Companies	
Benchmark:	FTSE All-Share (Total Return)	
Tracking error range:	2-6%	
Product capacity:	£2 bn (pooled & segregated)	
XD dates:	1 April & 1 October	
Dividend/Accumulation payment date:	31 May and 30 Nov	
Share class:	A	Z
Launch price (shares):	100.00p	500.00p
Share classification:	Retail	Institutional
Type of shares:	Income	Accumulation
Fund charges:		
Annual	1.50%	0.00%*
Initial (up to)	5.25%	5.25%
*AMC charged outside the Fund		
Minimum investment		
Initial	£1,000	£5 million
Subsequent	£500	£50,000
Sedol	B1NG777	B1NG7KO
ISIN	GB00B1NG7777	GB00B1NG7K01
Bloomberg	RVMUKEA LN	RVMUKEZ LN

Important Disclosure:

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