

RIVER AND MERCANTILE
ASSET MANAGEMENT

UK Equity Long Term Recovery Fund I Quarterly Report
June 2009

River and Mercantile

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UK Equity Long Term Recovery Fund – Quarterly Report

Fund Aim

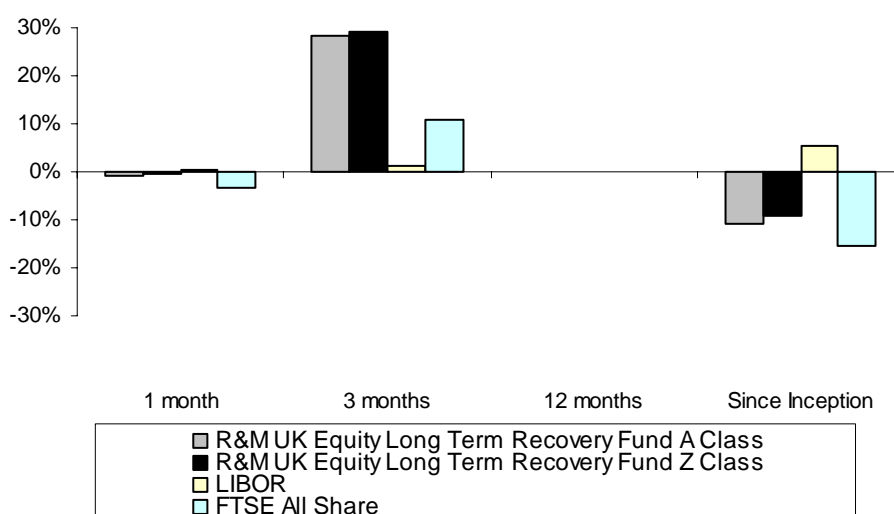
The investment objective of the Fund is to achieve capital growth through investing in a portfolio which will primarily consist of UK equities that meet the manager's recovery criteria of a turnaround in company profitability over the longer term. The Fund will not be restricted by reference to a benchmark, sector constraints or company size.

Portfolio Summary		Risk Analysis Summary	
Strategy AUM	£89.6m	Portfolio Volatility	19.30%
Strategy Capacity	£200m	Earnings Yield	13.37%
Number of stocks	124	Dividend Yield	3.97%
Largest Holding	HSBC 4.30%	Price to Sales	0.38
Average Return to Medium		Price to Book	0.83
Term Recovery Value	98%		

Performance as at 30 June 2009

Retail "A" Class Shares	Fund ¹	LIBOR	Difference	FTSE All Share
1 Month	-0.63%	0.37%	-1.00%	-3.21%
3 Months	28.53%	1.18%	27.35%	10.88%
12 Months	-	-	-	-
Since Inception ³	-10.80%	5.58%	-16.38%	-15.55%

Inst'l "Z" Class Shares	Fund ²	LIBOR	Difference	FTSE All Share
1 Month	-0.48%	0.37%	-0.85%	-3.21%
3 Months	29.08%	1.18%	27.90%	10.88%
12 Months	-	-	-	-
Since Inception ³	-9.33%	5.58%	-14.91%	-15.55%



Source: River and Mercantile Asset Management LLP

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 17th July 2008

Quarterly Report: Q2 2009

Quote for the Quarter

President "Bobby": Mr. Gardner, do you agree with Ben, or do you think that we can stimulate growth through temporary incentives?

Chance the Gardener: As long as the roots are not severed, all is well. And all will be well in the garden.

President "Bobby": In the garden.

Chance the Gardener: Yes. In the garden, growth has its seasons. First comes spring and summer, but then we have fall and winter. And then we get spring and summer again.

President "Bobby": Spring and summer.

Chance the Gardener: Yes.

President "Bobby": Then fall and winter.

Chance the Gardener: Yes.

Benjamin Rand: I think what our insightful young friend is saying is that we welcome the inevitable seasons of nature, but we're upset by the seasons of our economy.

Chance the Gardener: Yes! There will be growth in the spring!

Benjamin Rand: Hmm!

Chance the Gardener: Hmm!

President "Bobby": Hm. Well, Mr. Gardner, I must admit that is one of the most refreshing and optimistic statements I've heard in a very, very long time.

President "Bobby": I admire your good, solid sense. That's precisely what we lack on Capitol Hill.

From the Peter Sellers classic, Being There.

Key Observation

It has been a good quarter for those who kept the faith, for those value oriented investors who continued to support shares in companies as they fell to levels that reflected extreme fear rather than rational analysis. And this is my main message today to remind investors that whilst the last three months has been better we have only just started the recovery from irrational levels and that there is a lot more to go for. A share that has gone up 100% will attract comments that it has gone up too far, that it has had its recovery. But if that same share had fallen 90% before its bounce, it can double and still be down 80% from the top. And if that same share was valued at only one times recovery profits at the low point, it is only now valued at two times those profits. In other words there is a lot more to go for. The Long Term Recovery strategy has a portfolio of shares in good companies where the fundamentals are starting to improve and that remain remarkably undervalued on all measures. Spring is in the air.

Market background

Quarter:

Equity markets around the world had a strong quarter, encouraged by an apparent bottoming-out of the global economy. Many leading economic indicators, in many parts of the world became clearly less negative, and indeed some moved to levels that suggest a return to positive economic growth later this year. Credit markets showed material improvement, supported by a willingness of equity investors to inject new capital into companies to make them financially more robust. The capitalist system that had to be underwritten by governments and central banks last year is functioning again, moving capital to parts of the economy where rewards are perceived to be attractive.

The UK equity market delivered a positive return of 10.9%. The winners and losers were clear – cyclicals, bombed-out financials and recovery stocks did very well, defensive shares performed poorly. Smaller companies had a very strong quarter, rallying by 28.8%. Factor performance was clear, with an aggressive rotation from momentum to value.

How did we perform and why?

Quarter:

The portfolio returned 29.1% vs. 10.9% for the equity benchmark, and 1.1% for LIBOR. I am glad that our better performance this year has continued, and as we are only just moving into the recovery phase of the stock market cycle I would hope that our stronger returns will be sustained.

Key performance contributors

Quarter:

Positive: over-weight smaller companies, recovery and the value factor all of which performed very well. It should be noted that eight out of my top ten contributors were smaller companies which at least doubled, the 'tail' (i.e. smaller active positions) in the portfolio worked really well. Avis Europe, Topps Tiles, Fiberweb and Galiform were the biggest individual contributors.

Negative: the only negative contributors to performance were at the stock level, notably our position in Fidelity National Finance the US's leading real estate title insurance company that drifted back aggressively without any negative newsflow.

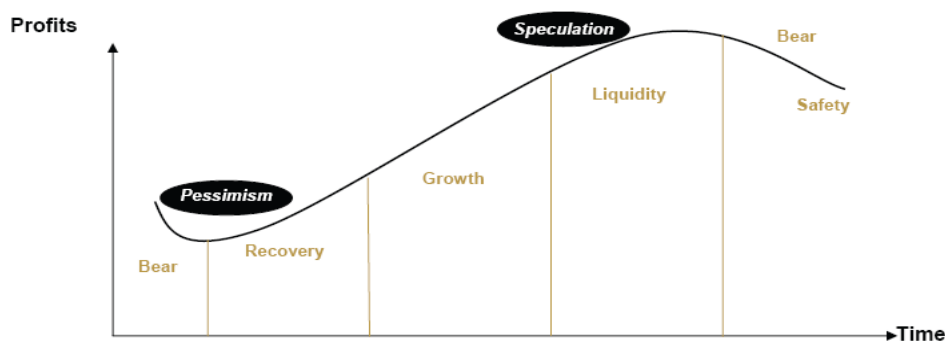
Longer Term Performance

The relative to equity market returns are now robust over all periods since launch, but the absolute returns remain impacted by the severity of the last leg down of the credit crunch. Given that we are now pretty clearly emerging from the nadir of the Stockmarket cycle we would expect both measures of performance to continue to progress, and in particular are targeting very material absolute upside from this attractive portfolio of recovery shares.

What themes occupy us at the moment?

The Stockmarket Cycle

We continue to frame the current environment in the context of the stock market cycle, and as we do for our sector skews we will report on where we think we are in the cycle on a regular basis.



	STAGE 1 2003/4 1992/3 2009/10?	STAGE 2 2004/6 1994/8	STAGE 3 2006/7 1999/0	STAGE 4 2001/2 1991/2 2007/8
ECONOMIC GROWTH	Below Trend	Trend	Above Trend	Decelerating
MONETARY POLICY?	Loose	Neutral	Tightening	Loosening
CAPITAL?	Rationed	Sustainable	Mis-allocation	Withdrawal
RISK APPETITE?	Low	Neutral	High	Falling
VALUE SPREADS	High	Reducing	Low	Increasing
STYLE?	Value/Recovery	Growth	Momentum	Value/Quality
BUY?	Turnarounds	Where is growth?	Momentum	Earnings sustainability

Source: River and Mercantile Asset Management LLP

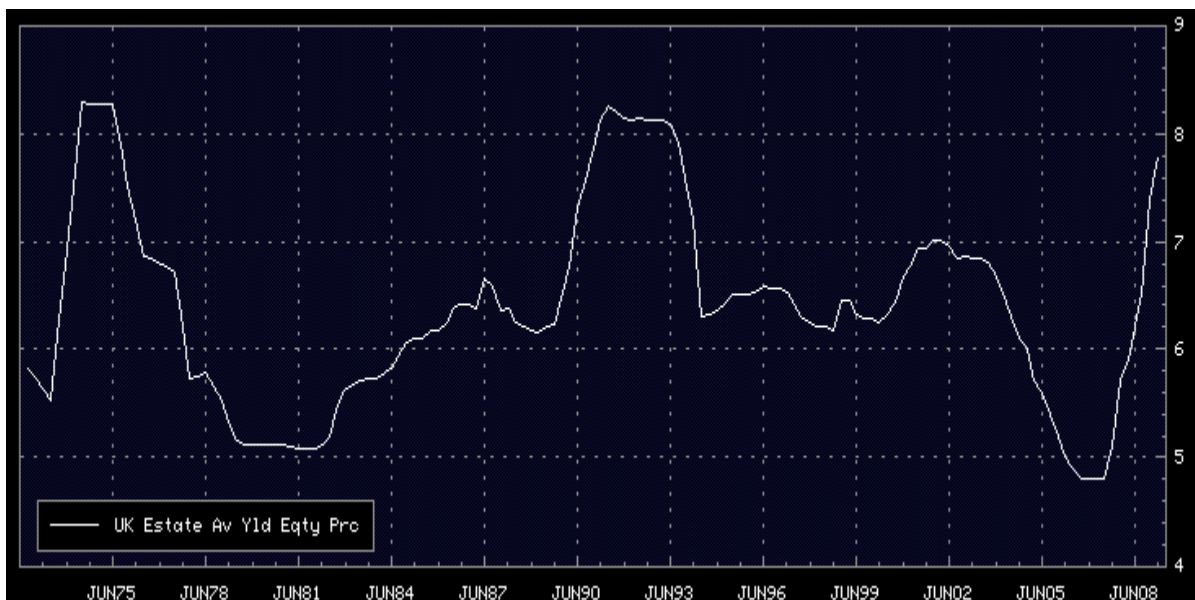
There is a sound body of evidence to suggest that we have moved into the recovery phase of the Stockmarket cycle. Economies are bottoming out in response to very loose monetary conditions, costs have been cut aggressively by companies to protect profits and enable margins to be rebuilt when demand starts to recover, and capital is now available but only where risk premiums are compelling. Value spreads have come in from their first quarter peak, but remain attractive.

Asset Backed and Real Estate Stocks

The Asset Backed category has been a poor performer during the credit crunch years. This follows a typical Life Cycle, with many years of good returns to asset backed investments (real estate in particular) leading to complacency and arrogance and as a result an overly

financially geared model going into a cyclical downturn. This excess gearing, and the bank debt associated with it has exaggerated the bear market as forced selling has taken values below their likely medium-term fundamental worth. With asset prices now very low the implied yields are high, indeed as the chart below shows they have in absolute terms returned to the peaks last achieved after previous property crashes in the mid-seventies and early nineties:

UK Commercial All Property Yield



Source: Bloomberg, CBRE

In addition relative to other income producing assets, Government Bonds in particular the yield available on property is now very attractive, indeed a number of standard deviations higher than normal.

So the valuation case for asset backed situations, and real estate in particular looks compelling - they have become classic recovery stocks. However until recently we have been reluctant to commit significant capital to this area due to an absence of Timing support. However this is now changing with a number of catalysts for recovery now in place. Real estate companies have re-financed, ensuring that they have the balance sheet strength to survive and then prosper; smart money is being raised, by seasoned property investors who astutely exited when the market became over-heated and will be put to work over the next year; and the financial investors, such as banks are now better capitalised and therefore less inclined to fire sale their property exposures. Transaction activity is just starting to pick-up, yields at the prime end have stopped falling and analyst estimates for net asset values at many of the property companies will now prove too cautious. We have materially increased our allocation to the Real Estate sector.

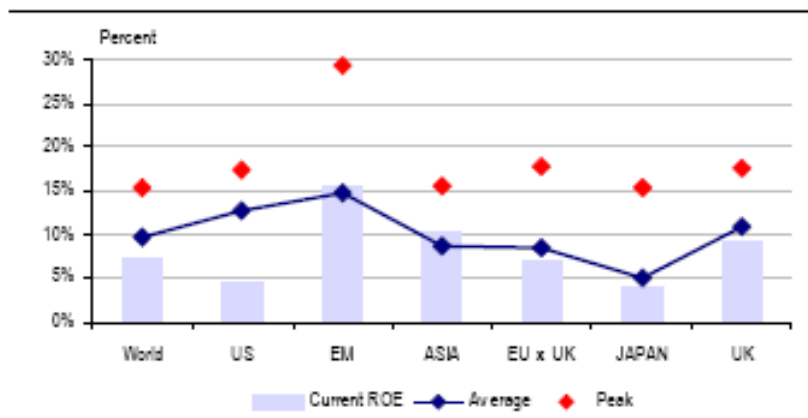
Financials

We have been increasing our financial sector exposure this year, taking the Strategy's weighting to 27% in the broad sector of which 13% is in banks. This has included supporting a number of fund raisings, at HSBC in particular. The sector is starting to score highly in the recovery and asset backed categories, with low valuations and improving timing.

The key to the thesis on UK listed banks is that their balance sheets have now been repaired and where needed insured by the UK Government, that whilst write-offs will be very large they will likely peak this year, that underlying profitability will be rebuilt due to the exit of many competitors and that whilst share prices have bounced from the 'end is nigh' lows valuations remain at the bottom-end of long term ranges.

The chart below, showing Return on Equity for banks across regions shows what has happened during the credit crunch and the medium term profit recovery opportunity across global markets.

Chart 1: Financial ROE across regions



Source: Datastream, UBS Note: Current RoE calculated as trailing 12 months through May 2009

ROE's ranged between 15% and 20% at the pre-credit crunch peak and have on average at least halved over the last two years. Most regions show returns well below 10%, below the cost of capital. Whilst a return to peak returns is highly unlikely as borrowers and lenders seek to deleverage there is still substantial recovery potential, with banking management focused on loan re-pricing, cost-cutting, strategic disposals and reducing their own funding costs. These initiatives are not a quick fix, with full recovery likely to take three to five years; however the more attractive risk and reward profile of the sector means we are comfortable being modestly overweight, with significant positions in the UK listed banks **HSBC**, **Barclays**, **Lloyds** and **Royal Bank** and also exposure to strong recovery franchises outside of the UK, namely **BCP**, **Citigroup** and **UBS**.

Rights Issues and Shareholder Value

Last quarter we wrote about our backing of a number of capital raisings by companies, seeing this as a good opportunity to invest in good quality businesses at the bottom of their Company Life Cycle. This is still my view, but as ever Investment Banks see this as a fee generating opportunity and are encouraging both too much and too many companies to raise capital. This is starting to annoy me and is a reminder that management need to go back to first principles, shareholder value generation. Issuing shares at a low price is dilutive to returns; when it is done to normalise a balance sheet that is fine, but it must not be done to provide belt-and-braces protection because if it is then future returns are unnecessarily diluted. Please Mr. Management and Mr. Investment Banker remember this.

Like the capitalist system as a whole shareholder value has developed a bad name over the credit crunch years. That is not because it is a silly concept, it is because it was abused at the top of the stock market cycle and became an excuse for financial engineering. Share prices are driven by the underlying value linked to them and management can enhance this through sensible use of cash flow and management of the equity base. In particular share buy backs can be good for shareholder value, but only if they are done when the shares are lowly valued and purchased out of free cash flow. Share buy backs must not be done at the top of the market, as a short term fix to get even higher returns. And if issues have to be done at the low point in the market then it is critical that the amount is a sensible amount, complemented by aggressive cash focused restructuring, not an issue to ensure management and bankers keep their jobs.

Portfolio Activity

The bottom of the stock market cycle was largely confirmed during last quarter. This is inevitably the point of maximum idea generation, as attractive recovery valuations are complemented by an improvement in newsflow. The number of stocks in the portfolio will peak at around the current level.

Refinancing (purchases)

There were a significant number of rights issues during the quarter aimed at strengthening balance sheets and providing capital to grow into the cyclical upturn. We supported a number of these, seeing an opportunity to apply new capital at the bottom of the cycle. We focused on businesses with strong franchises. Two of the biggest recipients of our capital were **HSBC** and **Rio Tinto**. HSBC remains an attractive global banking franchise, which tapped shareholders rather than the public sector for equity to ensure that it continued to have one of the strongest balance sheets in the sector. Rio Tinto replaced Chinese investors with capital from its own shareholders as it sought a more appropriate level of balance sheet gearing. We are confident that we will make attractive returns on both these investments. We also supported balance sheet strengthening from leading franchises within the Motor Retail sector, a classic play on consumer recovery. **Inchcape** and **Lookers** are both strong operators in the industry, with substantial recovery potential but both needed a stronger equity base to really benefit from improving market conditions. With the upside potential in both stocks being at least 100% we were happy to back both their rights issues.

Other investments (purchases)

Early in the quarter we detected a clear shift in risk appetite, and a preparedness of the market to buy into more illiquid investments. We used this as a signal to top-up a number of our existing high PVT scoring smaller company recovery investments, such as **Avis Europe**, **Topps Tiles** and **Lavendon**.

As regular readers of my Quarterly Reports will know I like company's that buy-out competitors at the bottom of the market, far more sensible than the norm which is to make acquisitions at the top of the cycle. The current company to fit this theme is **Segro**, with the Slough Estates focused industrial property company bidding for its main competitor Brixton Estates. Because this is a rescue it is looking to pay a fraction of what the company was worth a few years ago and a material discount to current net asset value. If this deal is completed it will be very accretive for shareholders over the medium term and we have added to our holding in this top decile asset backed stock as a result.

A previous example of in-market mergers, the traditional travel companies have seen their share prices underperform recently. The muted demand environment for holidays alongside parent company distractions has led the stock market to re-focus on short-term fears rather than longer-term fundamentals. This is now an oligopolistic market, with well run companies that are focused on margins not volume, and because the shares have become very cheap again we have been buying them back. **Thomas Cook** has been the focus of our activity.

A new stock we purchased was **Computacenter**. This is a top decile scoring Recovery share in one of our favoured sectors technology. Over the last few years management have successfully transitioned Computacenter away from its origins as a reseller of Personal Computers towards an outsourcing model where it looks after whole PC networks for major corporates. This shift is now starting to bear fruit, returning the company to growth and enabling it to rebuild margins. As a result profits are starting to beat expectations, and with the valuation reflecting the company's low growth past there is significant share price upside as the management deliver on their new business model.

Stocks that have delivered versus our PVT thesis (sale)

We sold out of **Rightmove** following a doubling of the share price since we developed our PVT thesis on the stock. Whilst the business is an attractive one, and the estate agents it is exposed to are starting to see recovery this became fully reflected in the share price which is now trading at a premium to our estimate of medium term worth.

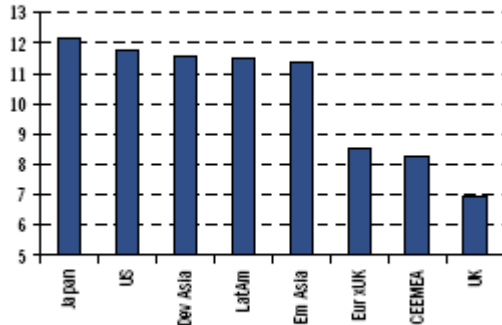
We reduced the fund's exposure to some early cycle consumer cyclicals following robust performance. This included taking some profits in retailers such as **Kingfisher** and **M&S**.

Our investments in on-line franchises such as **Expedia** and **Sportingbet** have been rewarding. With valuation gaps now more modest we decided to take some profits.

The Valuation of UK Equities

If I could be patriotic for a moment and state that the UK Equity market is very cheap, one of the best value in the world. Seven times trend PE! Buy while stocks last!

Figure 23. PE Based on 10 Year Average E

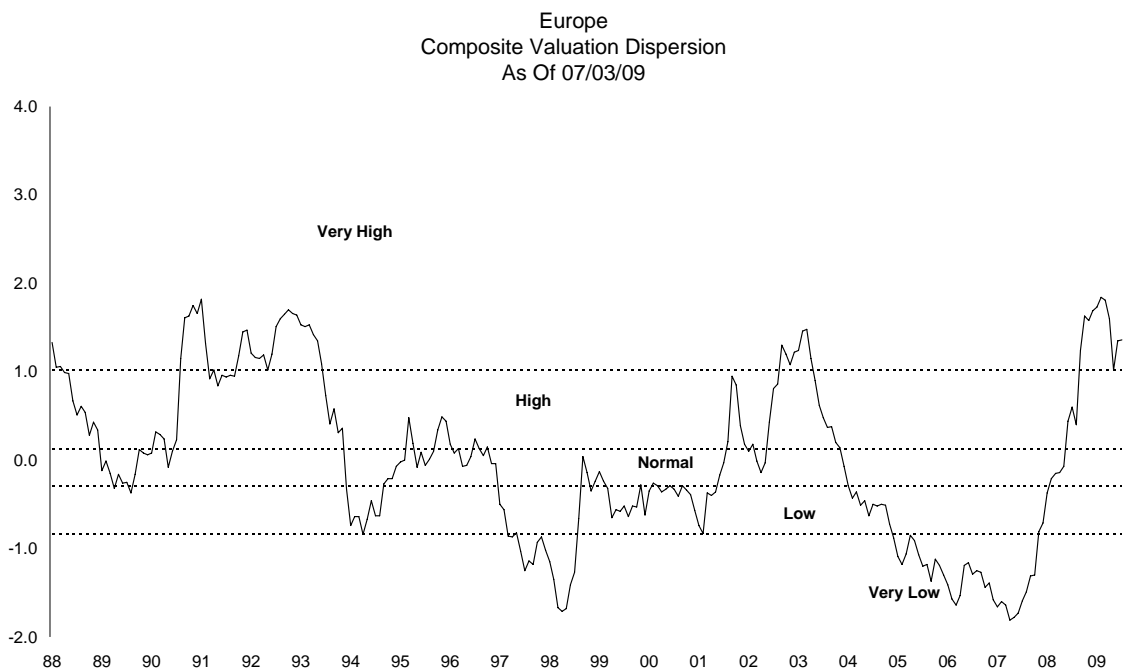


Source: CIRA, Factset

As for the Long Term Recovery Portfolio it continues to offer very compelling value, only 0.8 times book value, every 100p of investment is backed by 260p of sales and the earnings multiple is lower than the market. The average return to medium term recovery value remains high, at 98%.

Outlook

Whilst the Value Gap (the spread between highly rated stocks and lowly rated stocks) that we outlined last quarter has reduced somewhat it remains significantly higher than normal. The chart below is a European measure from Bernstein, updated to the beginning of July, showing that the investment opportunity for a value oriented portfolio is as high as it was coming out of the early nineties and post-TMT bubble recessions. These were strong periods for the recovery approach.



Source: Bernstein

Of course, as it is often said no investments go up in a straight line. No doubt risk assets around the world will pause for breath through the summer, probably needing an actual return to economic growth rather than just an improving trend to continue their recovery. But, if we need to wait, the wait will be well worth it. Valuations are low in general, and the cheapest part of the market remains more anomalous than usual; and the fundamentals, both in terms of economic growth and company profits are improving. As we emerge into springtime for the world's economy the returns to the Long Term Recovery strategy will be high. There is a lot more to go for.

Hugh Sergeant
Head of UK Equities

Portfolio Statement

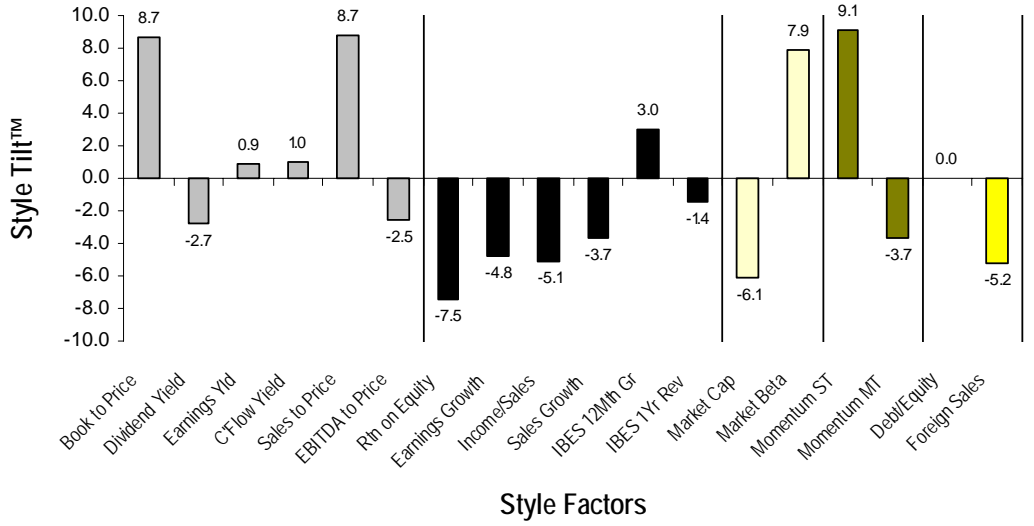
	Holding	Market Value	Percentage
		£	%
HSBC Holdings	750,016	3,769,205.41	4.30%
GlaxoSmithKline	236,800	2,531,392.00	2.89%
Lloyds Banking Group	2,489,662	1,740,771.67	1.99%
AstraZeneca	64,050	1,711,095.75	1.95%
Barclays	574,300	1,624,694.70	1.86%
Vodafone	1,380,400	1,618,519.00	1.85%
Anglo American	90,300	1,592,892.00	1.82%
IQE	17,056,200	1,569,170.40	1.79%
Prudential	361,900	1,498,266.00	1.71%
Rio Tinto	67,550	1,423,616.25	1.63%
Xstrata	215,000	1,414,270.00	1.62%
Avis Europe	6,386,700	1,373,140.50	1.57%
UBS	162,000	1,205,167.51	1.38%
Royal Bank Of Scotland	2,907,745	1,123,843.44	1.28%
Fiberweb	1,561,700	1,097,094.25	1.25%
888 Holdings	1,010,121	1,048,000.54	1.20%
Lonmin	86,932	1,020,147.02	1.16%
British Airways	781,200	974,937.60	1.11%
Centaur Media	2,463,859	960,905.01	1.10%
Fidelity Natl Financial	116,700	958,545.59	1.09%
British Land	250,866	958,308.12	1.09%
Invensys	428,200	957,027.00	1.09%
Ebay	90,900	945,511.15	1.08%
Citigroup	521,200	939,193.27	1.07%
Galiform	2,693,100	935,852.25	1.07%
Legal & General	1,624,300	922,115.11	1.05%
Daily Mail & General Trust	319,540	908,292.45	1.04%
Chime Communications	728,775	892,749.38	1.02%
D R Horton	155,600	885,611.49	1.01%
Topps Tiles	1,176,500	873,551.25	1.00%
CSR	246,800	863,800.00	0.99%
BT	847,495	861,478.67	0.98%
Cookson Group	315,780	826,554.15	0.94%
Delta	684,800	806,352.00	0.92%
MWB	1,590,500	803,202.50	0.92%
Brammer	623,467	791,803.09	0.90%
Inchcape	4,162,300	790,837.00	0.90%
BATM Advanced Communications	2,200,000	781,000.00	0.89%
Wolseley	67,168	778,141.28	0.89%
Neovia Financial	1,399,000	769,450.00	0.88%
Land Securities	161,100	759,586.50	0.87%
Persimmon	213,000	745,500.00	0.85%
Innovation Group	7,607,700	737,946.90	0.84%
Segro	3,008,900	737,180.50	0.84%
Charter International	167,300	724,827.25	0.83%
Home Retail Group	263,700	684,960.75	0.78%
Scapa Group	4,622,900	670,320.50	0.77%
Anite	1,875,756	661,203.99	0.76%
Marks & Spencer	212,900	650,941.75	0.74%
3i Group	269,257	650,794.17	0.74%
Dell	77,300	645,493.83	0.74%
Thomas Cook Group	311,650	641,219.88	0.73%
Gazprom Oao	52,000	639,488.03	0.73%
Regus	975,032	636,208.38	0.73%
Banco Commercial Portuguese	1,025,000	631,125.59	0.72%
Kcom Group	2,335,400	618,881.00	0.71%
Lookers	965,035	612,797.23	0.70%
Bodycote	470,062	602,854.52	0.69%
Future	3,286,991	599,875.86	0.69%
Hays	670,800	576,888.00	0.66%
Xaar	625,000	571,875.00	0.65%

	Holding	Market Value	Percentage
		£	%
Clinton Cards	1,875,000	571,875.00	0.65%
Harvey Nash Group	1,462,055	570,201.45	0.65%
RAB Capital	2,500,000	570,000.00	0.65%
Kingfisher	319,000	566,225.00	0.65%
Lavendon	446,767	565,160.26	0.65%
Interior Services	406,890	545,232.60	0.62%
Compass Group	159,100	543,326.50	0.62%
Oxford Instruments	379,500	542,685.00	0.62%
Games Workshop Group	210,500	534,670.00	0.61%
Wolfson Microelect	530,000	525,760.00	0.60%
Intermediate Cap	107,600	520,676.40	0.59%
Barratt Developments	350,657	515,465.79	0.59%
C&C Group	250,000	510,622.86	0.58%
RM	319,346	509,356.87	0.58%
Tribal Group	592,300	497,532.00	0.57%
Alcatel Lucent	325,800	497,068.39	0.57%
DTZ Holdings	989,021	489,565.40	0.56%
Costain Group	1,895,600	483,378.00	0.55%
Luminar Group	418,206	477,800.36	0.55%
Legg Mason	31,700	469,890.79	0.54%
Pace	235,550	468,744.50	0.54%
Aquarius Platinum Limited	202,055	467,514.86	0.53%
Psion New	700,000	464,100.00	0.53%
JJB Sport	1,475,000	463,150.00	0.53%
SIG	460,000	451,260.00	0.52%
Spark Ventures	6,311,100	449,981.43	0.51%
JD Wetherspoon	115,400	447,175.00	0.51%
Rentokil Initial	494,000	443,365.00	0.51%
Yule Catto & Co	407,500	435,210.00	0.50%
Flying Brands	973,062	433,012.59	0.49%
Evolution Group	295,000	425,685.00	0.49%
Travis Perkins	77,613	409,020.51	0.47%
Galliford Try	831,119	405,170.51	0.46%
Expedia	42,700	392,249.04	0.45%
GKN	312,224	387,157.76	0.44%
Intelek	2,675,000	374,500.00	0.43%
Henderson Group	405,000	372,600.00	0.43%
Somero Enterprises	2,103,300	368,077.50	0.42%
Nestor Healthcare Group	1,300,000	367,250.00	0.42%
BBA Aviation	316,176	362,021.52	0.41%
Tui Travel	147,900	343,128.00	0.39%
ITV	962,400	339,246.00	0.39%
STV Group	550,000	335,500.00	0.38%
Bank Of Ireland	225,000	326,201.66	0.37%
Arc International	2,718,253	326,190.36	0.37%
Skyepharma	265,960	321,811.60	0.37%
Treveria	2,733,600	319,381.87	0.36%
Computacenter	150,000	307,875.00	0.35%
Workspace Group	2,147,034	300,584.76	0.34%
Scott Wilson Group	450,000	299,250.00	0.34%
Novera Energy	625,000	287,500.00	0.33%
Aga Rangemaster	301,031	281,463.99	0.32%
Northgate	280,000	274,400.00	0.31%
St Ives	510,800	271,234.80	0.31%
Hyder Consulting	175,000	263,725.00	0.30%
Aukett Fitzroy Robinson	5,750,000	258,750.00	0.30%
Jarvis	4,344,900	252,004.20	0.29%
Capital & Reg Props	762,300	245,460.60	0.28%
Johnston Press	1,250,000	245,000.00	0.28%
MWB Business Exchange	305,000	224,175.00	0.26%
Rio Tinto nil paid	28,008	199,977.12	0.23%
JKX Oil & Gas	80,000	164,800.00	0.19%
E-Pay Asia	123,200	7,551.23	0.01%
Trading Acct -British Pound Sterling	1,129,809	1,129,808.92	1.29%

Source: River and Mercantile Asset Management

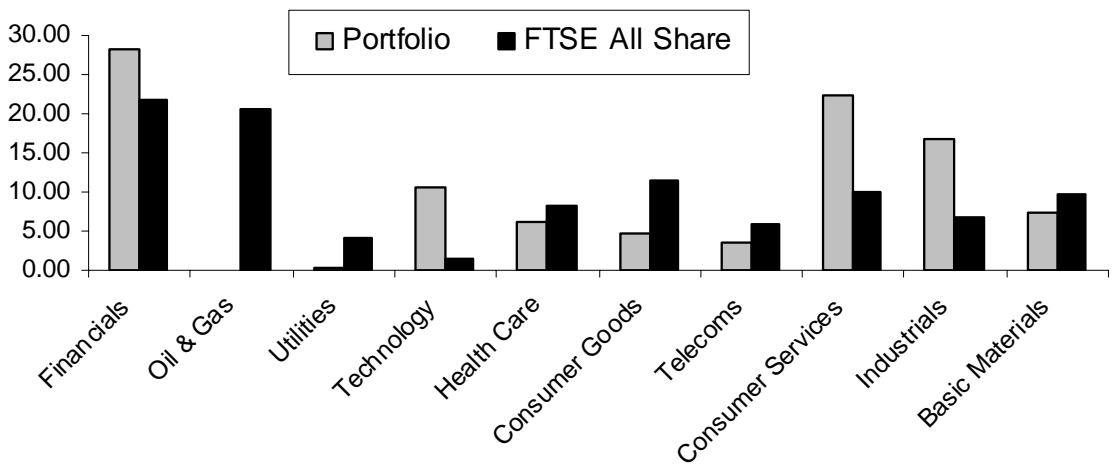
Portfolio Characteristics

1. Portfolio Style Analysis



Source: Style Research

2. Sector Weights



Source: Style Research

Portfolio Characteristics

3. Market Cap

Index	Portfolio
FTSE 100	36.2%
FTSE 250	16.6%
FTSE Small Cap	23.8%
FTSE Fledgling	3.9%
Other Markets	0.6%
FTSE AIM	7.3%
International Stocks	10.3%
Cash	1.3%

Source: River and Mercantile Asset Management LLP

4. Top 20 Holdings

Name		Market Value	Weight
HSBC Holdings	£	3,769,205.41	4.30%
GlaxoSmithKline	£	2,531,392.00	2.89%
Lloyds Banking	£	1,740,771.67	1.99%
AstraZeneca	£	1,711,095.75	1.95%
Barclays	£	1,624,694.70	1.86%
Vodafone	£	1,618,519.00	1.85%
Anglo American	£	1,592,892.00	1.82%
IQE	£	1,569,170.40	1.79%
Prudential	£	1,498,266.00	1.71%
Rio Tinto	£	1,423,616.25	1.63%
Xstrata	£	1,414,270.00	1.62%
Avis Europe	£	1,373,140.50	1.57%
UBS	£	1,205,167.51	1.38%
Royal Bank of Scotland	£	1,123,843.44	1.28%
Fiberweb	£	1,097,094.25	1.25%
888 Holdings	£	1,048,000.54	1.20%
Lonmin	£	1,020,147.02	1.16%
British Airways	£	974,937.60	1.11%
Centaur Media	£	960,905.01	1.10%
Fidelity National Financial	£	958,545.59	1.09%

Source: River and Mercantile Asset Management LLP

Portfolio Characteristics

5. Stock Level Performance Attribution

Best Performing	Average Active Weight	Contribution to Active Return
Avis	1.16%	1.77%
Topps Tiles	1.09%	0.99%
Fiberweb	1.05%	0.93%
Galiform	1.07%	0.82%
IQE	1.60%	0.74%
Royal Dutch Shell A	-4.71%	0.64%
BP	-7.63%	0.63%
Chime Communications	0.92%	0.57%
Pace	0.62%	0.57%
Centaur Media	1.00%	0.49%
Worst Performing	Average Active Weight	Contribution to Active Return
Fidelity National Financial	1.18%	-0.76%
Barclays	-0.77%	-0.52%
HSBC Holdings	-2.68%	-0.49%
Skyepharma	0.62%	-0.31%
Standard Chartered	-1.65%	-0.31%
Lavendon	0.60%	-0.26%
British Airways	1.10%	-0.25%
Aviva	-0.63%	-0.24%
JD Weatherspoons	0.83%	-0.22%
D.R Horton	1.34%	-0.21%

Source: Style Research

Compliance Statement for Quarterly Fund Reports (Q2 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 May 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 June 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 first quarter internal Risking Monitoring Programme was completed in April 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 (£)			
		% Net	% with Commission		Total	Average Commission (%)	% of Total Commission	
			Full service Rate	At other Rates				
1	ALTUM CAPITAL	£ 948,066.38	0.00%	100.00%	0.00%	£ 2,370.16	0.25%	2.89%
2	ARBUTHNOT	£ 414,213.78	0.00%	25.00%	75.00%	£ 740.71	0.18%	0.90%
3	ARDEN PARTNERS	£ 762,198.56	0.00%	85.71%	14.29%	£ 1,829.10	0.24%	2.23%
4	BREWIN DOLPHIN	£ 750,104.55	0.00%	66.67%	33.33%	£ 1,577.48	0.21%	1.92%
5	CANACCORD	£ 134,322.09	0.00%	0.00%	100.00%	£ 167.90	0.12%	0.20%
6	CAZENOVE	£ 2,356,464.09	3.70%	59.26%	37.04%	£ 4,105.85	0.17%	5.00%
7	CHARLES STANLEY	£ 221,000.00	0.00%	100.00%	0.00%	£ 552.50	0.25%	0.67%
8	CITIGROUP	£ 2,614,232.63	0.00%	74.19%	25.81%	£ 5,095.70	0.19%	6.20%
9	COLLINS STEWART	£ 4,337,888.20	4.08%	28.57%	67.35%	£ 6,403.10	0.15%	7.80%
10	EVOLUTION	£ 918,705.93	10.00%	80.00%	10.00%	£ 2,152.30	0.23%	2.62%
11	INVESTEC	£ 2,533,551.33	0.00%	53.13%	46.88%	£ 4,371.88	0.17%	5.32%
12	KBC	£ 3,581,438.67	0.00%	94.92%	5.08%	£ 8,667.76	0.24%	10.55%
13	LIBERUM	£ 87,487.62	0.00%	100.00%	0.00%	£ 218.72	0.25%	0.27%
14	LIQUIDNET	£ 249,324.08	0.00%	0.00%	100.00%	£ 174.52	0.07%	0.21%
15	MERRILL LYNCH	£ 8,270,193.03	0.00%	88.89%	11.11%	£ 16,619.78	0.20%	20.24%
16	MIRABAUD	£ 1,612,282.68	0.00%	70.00%	30.00%	£ 3,179.17	0.20%	3.87%
17	NOBLE	£ 45,000.00	0.00%	100.00%	0.00%	£ 112.50	0.25%	0.14%
18	NUMIS	£ 3,180,350.18	0.00%	95.45%	4.55%	£ 7,681.02	0.24%	9.35%
19	PANMURE GORDON	£ 1,482,933.98	0.00%	69.57%	30.43%	£ 2,907.76	0.20%	3.54%
20	RBS	£ 2,895,577.66	0.00%	77.14%	22.86%	£ 5,684.30	0.20%	6.92%
21	SANFORD BERNSTEIN	£ 140,668.89	0.00%	0.00%	100.00%	£ 175.84	0.13%	0.21%
22	SINGERS	£ 353,017.25	0.00%	71.43%	28.57%	£ 669.52	0.19%	0.82%
23	SOC GEN	£ 513,916.41	0.00%	0.00%	100.00%	£ 642.39	0.12%	0.78%
24	STATE ST	£ 57,829.25	0.00%	0.00%	100.00%	£ 57.83	0.10%	0.07%
25	UBS	£ 642,860.66	12.50%	62.50%	25.00%	£ 1,164.94	0.18%	1.42%
26	WINTERFLOODS	£ 2,192,571.66	2.33%	90.70%	6.98%	£ 4,802.38	0.22%	5.85%
Total		£ 41,296,199.55	1.21%	74.34%	24.44%	£ 82,125.11	0.20%	

Of the £6,403.10 paid to Collins Stewart 7.17% has been paid to a third party as per commission sharing agreement

Firm Wide Comparators

All Equity Trading	£406,414,742.05	0.45%	57.62%	41.93%	£651,757.46
Trades: UKLT	£41,296,199.55	1.21%	74.34%	24.44%	£82,125.11
Average Firm-Wide Commission Rate in Basis Points					16.0
UKLT: Average Commission Rate in Basis Points					19.9

Source: River and Mercantile Asset Management LLP

Transaction Cost Analysis

UKLT

Q2 2009

	Trades	Total Value	Indirect Costs %	Indirect Costs £	Direct Costs %	Direct Costs £	Total Costs %	Total Costs £
Buys	310	£23,348,570.00	-0.2034%	-£47,490.99	0.6131%	£ 143,150.08	0.4097%	£ 95,659.09
Sells	181	£ 18,318,269.00	-0.2838%	-£51,987.25	0.1916%	£ 35,097.80	-0.0922%	-£ 16,889.44
Totals	491	£ 41,666,839.00	-0.2387%	-£99,478.24	0.4278%	£ 178,247.89	0.1890%	£ 78,769.65

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	170
FTSE 250 :	42
FTSE 100 :	11

Source: River and Mercantile Asset Management LLP

Fund Facts

Launch date	17 July 2008
Fund manager:	Hugh Sergeant
IMA sector:	UK All Companies
Benchmark:	LIBOR Overnight Cash Rate
Tracking error range:	N/A
Product capacity:	£200m (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	Income	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	B1YHLP5	B614J05	B1YJFW6
ISIN	GB00B1YHLP55	GB00B614J053	GB00B1YJFW60
Bloomberg	RMUKELA LN	RMUKEBBLN	RMUKELB LN

Important Disclosure:

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