

River and Mercantile Asset Management LLP

Report and Financial Statements

For the Year Ended

31 March 2009

Registered No: OC317647

Registered in England

River and Mercantile Asset Management LLP

Annual report and financial statements for the year ended 31 March 2009

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Members appointed

James Barham	4 February 2006
Simon Wilson	4 February 2006
Sir John Beckwith	16 March 2006
Julian Cripps	16 March 2006
Mark Johnson	16 March 2006
River & Mercantile Investment Management Ltd.	16 March 2006
Richard Staveley	7 August 2006
Hugh Sergeant	7 August 2006
Christopher Mark Thomas	29 August 2006
Daniel Hanbury	23 October 2006
Nicholas Slater	2 July 2007
Andrew Bollon	6 April 2009
Charles Benett	6 April 2009
Stuart Heath	6 April 2009

Registered office

30 Coleman Street
London
EC2R 5AL

Auditors

BDO Stoy Hayward LLP, 55 Baker Street, London, W1U 7EU.

River and Mercantile Asset Management LLP

Chief executive's statement

Introduction

In our last report on the partnership in April 2008 I took the opportunity to update you on how River and Mercantile had fared in its first full twelve months of trading, a period that was, in hindsight, relatively benign from an investment perspective. In the last twelve months we have experienced an economic storm that has engulfed us all; from apparently minor squalls in the complex US sub-prime market, a storm of hurricane capacity has developed sweeping through financial markets, growing all the time, feeding on fear and uncertainty to the point that this storm has impacted the wider global economies.

So far billions of pounds worth of Government guarantees have been provided to institutions such as the Lloyds Banking Group and the Royal Bank of Scotland; new loans have been underwritten and the Government has taken stakes in many of our major banks through the newly formed UKFI. Similar dramatic steps have been taken across Europe and in the US and we await evidence that this unprecedented level of intervention will have the desired effect. What is clear is that the extreme difficulties experienced in financial markets have infected the wider economies across the world creating a global recessionary environment. In spite of this we have begun to see examples and incidence of "green shoots" that should lead to some form of recovery; however the outlook remains ambiguous and it would be prudent to expect that the year ahead of us will continue to prove difficult.

Current Trading

Against this background I am delighted to report that River and Mercantile has had a very positive year. A year in which we have delivered very credible growth both in terms of the underlying assets and in the number of strategies that we manage. Our UK Division commenced trading in December 2006 with the launch of its first two funds. Since then the number of our UK funds has grown to six with the launch of a number of additional strategies including, in the last financial year, the UK Equity Long Term Recovery Fund managed by Hugh Sergeant and the UK Equity Income Fund managed by Richard Staveley. At the time of writing in July 2009 the business manages in excess of £800 million. This is an increase of around 50% on the figures we reported this time last year despite a fall in the market of approximately 25%.

This asset growth is in line with our original expectations albeit in the face of difficult market conditions. The mix between retail and institutional assets is broadly in line with our aspirations at this stage in our development. The range of clients has been positive with over sixteen institutional accounts investing in segregated and pooled vehicles. Our largest segregated account is over £150 million. We also continue to enjoy the support from the leading investment consultants and hold some of the highest ratings available.

The retail business had positive net sales in every month during 2008 and the first quarter of 2009. The pipeline for new business for both the retail and the institutional businesses is very healthy and we look forward with confidence to growing the UK business through to our stated capacity limits over the coming years.

River and Mercantile Asset Management LLP

Chief executive's statement (continued)

Future Plans

Our original business plan developed in 2006 set out our ambitions for the continued development of the investment capability at River and Mercantile and we are delighted to report that we have recently recruited Alex Stanic from Newton Investment Management to develop our Global Equities Division. We intend to launch the Global Equity Fund and the Global Equity Unconstrained Fund later in the year.

In the meantime I would like to take this opportunity to thank those clients who have continued to support our business and to welcome the many new investors during the period. The continued support of our clients is imperative and we hope that we have met their expectations during this difficult year.

I would also like to thank my fellow Partners and all our staff for their continuing hard work and dedicated commitment to the success of River and Mercantile.



James Barham
Chief Executive

July 2009

River and Mercantile Asset Management LLP

Report of the members for the year ended 31 March 2009

The members present their report together with the audited financial statements for the year ended 31 March 2009.

Principal activity

The principal activity of River and Mercantile Asset Management LLP is fund management.

Results for the year and allocation to members.

The profit for the year to 31 March 2009 attributable to members was £714,302 (2008: loss of £105,635).

The members are satisfied with the results for the year.

Principal risks and uncertainties

From the perspective of the Partnership, the principal risks and uncertainties are monitored by the members in accordance with the Financial Services Authority's rules and regulations and best corporate practice.

The Partnership acts to mitigate risk through the experience of the members and employees, the implementation of stringent controls on activities and by taking appropriate actions to safeguard the Partnership's assets.

A full statement of the Partnership's risk management policies is contained in the Partnerships Capital Requirements Directive Pillar 3 disclosure.

Designated members

The designated members throughout the year were:

Sir John Beckwith
James Barham
Julian Cripps
Mark Johnson

Key performance indicators

Given the nature of the business, the members feel that the financial statements give an adequate indication of the continuing performance of the Partnership.

River and Mercantile Asset Management LLP

Report of the members for the year ended 31 March 2009 (continued)

Members' responsibilities

The members are responsible for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Limited Liability Partnerships (LLP) Regulations 2001 made under the Limited Liability Partnership Act 2000 require the members to prepare the financial statements for each financial period which give a true and fair view of the state of affairs of the Partnership and of the profit and loss of the Partnership for that period. In preparing those financial statements, the members are required to:

- (i) select suitable accounting policies and then apply them consistently;
- (ii) make judgements and estimates that are reasonable and prudent;
- (iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- (iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Partnership will continue in business.

Under the Limited Liability Partnership Regulations, the members are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Partnership and to enable them to ensure that the financial statements will comply with those regulations. The members have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Partnership and to prevent and detect fraud and other irregularities.

All of the current members have taken all steps that they ought to have taken to make themselves aware of any information needed by the Partnership's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The members are not aware of any relevant audit information of which the auditors are unaware.

Allocation of profits and losses

Any profits or losses are shared among the members as governed by the Partnership Agreement.

Members are remunerated solely out of the profits or losses of the Partnership and final allocations of profits or losses to members are made in accordance with the Partnership Agreement.

Capital

The members may only contribute to the Partnership's capital in accordance with the Partnership Agreement. No member is entitled to interest on their capital.

River and Mercantile Asset Management LLP

Report of the members for the year ended 31 March 2009 *(continued)*

Policy for drawings, subscriptions and repayment of members' capital

The Partnership Agreement governs policies for members' drawings, subscriptions and repayment of members' capital. No drawings or other payments can be made to or on behalf of any members, other than by distribution of profits, without the consent of the members. The firm will reserve, out of profits before distribution, sufficient funds to provide for the working and regulatory capital requirements of the business.

Pillar 3 disclosures

The Partnership is regulated by the financial services authority (FSA) and is subject to the Capital Requirements Directive (CRD).

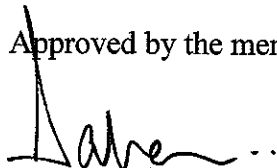
The CRD Pillar 3 disclosure of the Partnership is available on request; to obtain a copy please write to:

The Chief Operating and Compliance Officer
River and Mercantile Asset Management LLP
30 Coleman Street
London
EC2R 5AL

Auditors

A resolution to re-appoint BDO Stoy Hayward LLP as auditors will be proposed at the next members meeting.

Approved by the members of the Limited Liability Partnership on 6/7/09



James Barham
Designated Member

River and Mercantile Asset Management LLP

Report of the independent auditors

To the members of River and Mercantile Asset Management LLP

We have audited the financial statements of River and Mercantile Asset Management LLP for the year ended 31 March 2009 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of members and auditors

As described in the statement of members' responsibilities, the members of the limited liability Partnership are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Limited Liability Partnerships Regulations 2001 and whether the information given in the members' report is consistent with those financial statements. We also report to you if, in our opinion, the limited liability partnership has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Report of the members and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Limited Liability Partnerships Regulations 2001 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Limited Liability Partnerships Regulations 2001 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to River and Mercantile Asset Management LLP's circumstances, consistently applied and adequately disclosed.

River and Mercantile Asset Management LLP

Report of the independent auditors (*continued*)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Partnership's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Limited Liability Partnerships Regulations 2001; and
- the information given in the Members report is consistent with the financial statements.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
London

Date *6/7/2009*

River and Mercantile Asset Management LLP

Profit and loss account for the year ended 31 March 2009

	Note	2009 £	2008 £
Turnover	2	3,863,067	1,993,701
Cost of sales		(1,160,134)	(561,834)
Gross profit		2,702,933	1,431,867
Administrative expenses		(2,016,698)	(1,586,091)
Operating profit / (loss)	3	686,235	(154,224)
Unrealised loss on investments		(32,540)	(9,352)
Interest receivable		60,607	57,941
Result for the financial period available for division among the members	5	714,302	(105,635)

All recognised gains and losses in the current and prior year are included in profit and loss account. Accordingly, no statement of total recognised gains and losses has been prepared.

All amounts relate to continuing activities.

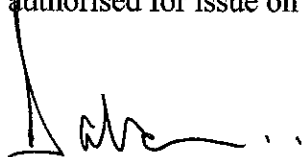
The notes on pages 12 to 19 form part of these financial statements.

River and Mercantile Asset Management LLP

Balance sheet at 31 March 2009

	Note	2009 £	2008 £
Fixed assets			
Tangible fixed assets	6	<u>41,616</u>	<u>99,641</u>
Current assets			
Investments	7	92,886	75,270
Debtors	8	1,112,283	703,992
Cash at bank and in hand		<u>1,677,838</u>	<u>1,057,197</u>
		<u>2,883,007</u>	<u>1,836,459</u>
Creditors: amounts falling due within one year	9	<u>(1,597,855)</u>	<u>(742,573)</u>
Net current assets		<u>1,285,152</u>	<u>1,093,886</u>
Net assets attributable to members		<u><u>1,326,768</u></u>	<u><u>1,193,527</u></u>
Represented by:			
Members' capital	10	3,017,804	3,017,804
Loans and other debt due from members	10	(786,595)	(919,836)
Profit and loss account		(904,441)	(904,441)
Total members' interest		<u><u>1,326,768</u></u>	<u><u>1,193,527</u></u>

The financial statements were approved by the members of the Limited Liability Partnership and authorised for issue on 6/7/09



James Barham
Designated Member

The notes on pages 12 to 19 form part of these financial statements.

River and Mercantile Asset Management LLP

Cash flow statement for the year ended 31 March 2009

	Note	2009 £	2008 £
Net cash inflow / (outflow) from operating activities	11	1,193,569	(2,177,965)
Returns on investments and servicing of finance			
Interest received		60,607	57,941
Capital expenditure and financial investment			
Purchase of investments		(50,000)	(20,000)
Proceeds on sale of investments		(156)	(1,267)
Purchase of tangible fixed assets		(2,318)	(9,483)
Transactions with members			
Members' capital introduced		-	251,750
Drawings		(581,061)	(510,689)
Increase / (decrease) in cash	12	620,641	(2,409,713)

The notes on pages 12 to 19 form part of these financial statements.

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2009

1 Accounting policies

The financial statements have been prepared under the historical cost convention, other than the revaluation of investments, and in accordance with applicable accounting standards and the Statement of Recommended Practice on Accounting by Limited Liability Partnerships (March 2006).

The following principal accounting policies have been applied:

Turnover

Turnover represents the invoiced value of services provided net of value added tax. Management and incentive fees are recognised when payable in accordance with the relevant investment management agreement.

Taxation

In accordance with the statement of recommended practice on accounting by Limited Liability Partnerships, no taxation is disclosed.

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and impairment in value.

Depreciation is provided on all tangible fixed assets to write off the cost or valuation, less estimated residual values, evenly over their estimated useful lives. It is calculated at the following annual rates on a straight-line basis:

Computer equipment	33.33%
Fixtures and fittings	25%

Foreign currency

Foreign currency transactions are translated at the rates prevailing when they occurred. Foreign currency monetary assets and liabilities are translated at the rates prevailing at the balance sheet dates. Any differences are taken to the profit and loss account.

Investments

Investments are stated at their market value. Changes in the market value of investments are recognised in the profit and loss account.

Leases

Operating leases are charged to the profit and loss on a straight line basis over the period of the lease.

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2009 *(continued)*

Pension costs

Contributions to the Partnership's defined contribution pension scheme are charged to the profit and loss account in the period in which they become payable. The assets of the scheme are held separately in an independent administered fund.

Financial assets

The Partnership classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Partnership's accounting policy for each category is as follows:

Fair value through profit or loss: The Partnership classes its investments as assets being at fair value through profit or loss. Fair value is determined by reference to externally quoted market prices.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at amortised cost using the effective interest method less any provision for impairment. The Partnership has no loans and receivables as at 31 March 2009.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Partnership's executive committee has the positive intention and ability to hold to maturity. These assets are measured at amortised cost using the effective interest method, with changes through the income statement. The Partnership has no assets that are held to maturity.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Partnership's investments in trading exchanges. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement. Fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Partnership establishes fair value by using valuation techniques. The Partnership has no assets that are available for sale.

2 Turnover

Turnover is wholly attributable to the principal activity of the Partnership and arises solely within the United Kingdom.

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2009 (continued)

3 Operating profit / (loss)

	2009	2008
	£	£
This has been arrived at after charging / (crediting):		
Depreciation	60,343	58,665
Foreign exchange gain	(17,216)	(1,224)
Auditors' remuneration	12,000	12,000
Rental of land and buildings under operating leases	74,436	75,662

4 Employees

	2009	2008
	£	£
Staff costs consist of:		
Wages and salaries	613,772	443,007
Social security costs	78,563	52,585
Other pension costs	38,288	23,196

The average number of employees (excluding members) during the period was 9 (2008: 6).

5 Members' share of profits / (losses)

Profits and losses are shared by the members at the end of the period in accordance with agreed profit and loss sharing arrangements governed by the Partnership Agreement. Members are required to make their own provision for pensions and other benefits from their profit shares.

	2009	2008
	Number	Number
Average number of members	11	11

	2009	2008
	£	£
Average profit / (loss) per member	64,937	(9,603)

The amount attributable to the member with largest allocation of profit was £124,002.

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2009 (continued)

6 Tangible fixed assets

	Computer Equipment £	Fixtures & Fittings £	Total £
Cost:			
At 31 March 2008	119,963	78,708	198,671
Additions	2,318	-	2,318
At 31 March 2009	122,281	78,708	200,989
Depreciation:			
At 31 March 2008	(68,187)	(30,843)	(99,030)
Charge for the year	(40,665)	(19,678)	(60,343)
At 31 March 2009	(108,852)	(50,521)	(159,373)
Net book value			
At 31 March 2008	51,776	47,865	99,641
At 31 March 2009	13,429	28,187	41,616

7 Investments

	£
Market value at 31 March 2008	75,270
Additions at cost	50,000
Unrealised loss on investments	(32,540)
Realised profit on investments	156
Market value at 31 March 2009	92,886

Historical cost of investments is £130,000 (2008: £80,000).

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2009 (continued)

8 Debtors

	2009	2008
	£	£
Trade debtors	2,918	-
Investment management business debtors	470,453	188,425
VAT recoverable	-	15,474
Prepayments and accrued income	638,912	500,093
	<u>1,112,283</u>	<u>703,992</u>

9 Creditors: amounts falling due within one year

	2009	2008
	£	£
Trade creditors	248,008	127,286
Investment management business creditors	909,106	364,417
Accruals	440,741	250,870
	<u>1,597,855</u>	<u>742,573</u>

10 Members' interests

	Members' Capital	Profit and Loss	Loans and other debt due from members	Total
	£	£	£	£
Members' interests at 31 March 2008	3,017,804	(904,441)	(919,836)	1,193,527
Profit for the period	-	714,302	-	714,302
Drawings	-	-	(581,061)	(581,061)
Profit allocated to members debts	-	(714,302)	714,302	-
Members' interests at 31 March 2009	<u>3,017,804</u>	<u>(904,441)</u>	<u>(786,595)</u>	<u>1,326,768</u>

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2009 (continued)

Capital is repayable in accordance with the terms set out in the Partnership Agreement. Members' capital and other debts rank after unsecured creditors in the event of a winding up. The Partnership is regulated by the Financial Services Authority and is required to comply with the Capital Requirements Directive.

11 Reconciliation of operating profit / (loss) to net cash inflow / (outflow) from operating activities

	2009	2008
	£	£
Operating profit / (loss)	686,235	(154,224)
Depreciation	60,343	58,665
Increase in debtors	(126,263)	(332,408)
(Increase)/decrease in investment management business debtors	(282,028)	822,333
Increase/(decrease) in creditors	310,593	(27,844)
Increase/(decrease) in investment management business creditors	544,689	(2,544,487)
Net cash inflow/(outflow) from operating activities	<u>1,193,569</u>	<u>(2,177,965)</u>

12 Reconciliation of net cash inflow to movement in net cash

	2009
	£
Cash in hand and at bank at 1 April 2008	1,057,197
Increase in cash in the year	620,641
Cash in hand and at bank at 31 March 2009	<u>1,677,838</u>

13 Financial risk management

In the normal course of its business the Partnership will be exposed to a range of financial risks including market, credit and liquidity risk. Market risk exposures will arise from investments held in the fund.

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2009 *(continued)*

Objectives, policies and processes for managing risk

The Executive Committee is responsible for setting and monitoring the Partnership's risk profile and is responsible for oversight of the risk management function. The Partnership's objective is to have a comprehensive and timely control and disclosure of key risk measures and exposures.

Market risk

The Partnership holds a small box position in the funds that it manages, the market movement in this position is immaterial to the overall performance of the business.

Credit risk

Cash : Cash balances are held with banks that are reputable institutions, consequently the Partnership views the credit risk of holding amounts with these entities to be low. The company holds amounts in fixed deposits when appropriate to maximise interest income on its cash.

Investment business debtors : As Authorised Corporate Director ('ACD') of River and Mercantile Funds ICVC ('the Fund') the Partnership is required to settle transactions between investors and the depositary of the Fund. The Partnership is exposed to the short term cash flow risk that it will be required to settle with the depositary of the Fund before receiving funds from the investor.

The Partnership, in its role as ACD, is exposed to credit risk when an investor defaults on a contract. Under such a default the Partnership is required to settle the investor's contract with the depositary of the Fund. The Partnership is then able to redeem the shares in the Fund. The Partnership bears the risk that the price of the shares may vary between the initial settlement and redemption of the shares.

Currency risk

At the balance sheet date the Partnership only had a foreign currency exposure in US dollars which was cash held of \$110,479 (2008 : \$209,096). The cash balance operates as a natural hedge against US dollar expenditure.

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2009 *(continued)*

14 Financial commitments

The partnership had annual commitments under non-cancellable operating leases on land and buildings expiring as follows:

	2009	2008
Operating leases which expire:		
After five years	<u>89,980</u>	<u>89,980</u>

15 Related party transactions

During the year, the Partnership carried out a number of transactions with Pacific Investments Plc, these transactions and their total value are given below:

	2009	2008
	£	£
Transactions with Pacific Investments Plc		
Accountancy Fees	12,000	12,000
Corporate Finance Fees	<u>25,000</u>	<u>25,000</u>
	<u>37,000</u>	<u>37,000</u>

Included in creditors at the year end is an amount of £139,837 (2008 - £87,591) due to Pacific Investments Plc. Pacific Investments Plc is related by virtue of a subsidiary of Pacific Investments Plc being a member of The Partnership.

16 Ultimate controlling parties

At 31 March 2009 the ultimate controlling parties were the designated members.