

River and Mercantile Asset Management LLP

Report and Financial Statements

For the Year Ended

31 March 2011

Registered No: OC317647

Registered in England

River and Mercantile Asset Management LLP

Contents

Page:

3	Chief executive's statement
5	Report of the members
8	Report of the independent auditors
10	Profit and loss account
11	Balance sheet
12	Cash flow statement
13	Notes to the financial statements

Registered office

30 Coleman Street
London
EC2R 5AL

River and Mercantile Asset Management LLP

Chief executive's statement

Financial Highlights

- **Assets under management (including assets in transition) at time of writing stand at £1.77bn. This represents an increase of 45% from 2010 Financial Year End.**
- **Gross Profits increased by 30% to £5.78m.**
- **Administrative Expenses increased by 12% to £2.50m.**
- **Operating Profits increased by 44% to £3.28m.**

Introduction

The 'green shoots' that I referred to last year have continued to sprout. It appears that the global economic recovery has continued to strengthen in 2011 as policy settings remain highly stimulative in most of the developed world and companies are finally becoming confident enough to invest. They certainly have the firepower to do so, with extremely strong balance sheets, profits and cash flow. There are, as ever, two sides to every trade and whilst the corporate sector is clearly focused on a return to strength, the balance sheets of consumers and Governments continue to look pretty sick.

Markets have continued the recovery with the FTSE All World Index rising a further 16.7% in 2010 following the 21.2% rise in 2009. Are the markets leading the global economies out of the abyss or are they blind to the ongoing problems besetting much of the developed world? As I discussed last year, both personal and government driven debt remains the major issue and it is only just becoming apparent to some that the medicine has to be forced and unpleasant.

As a business, it is encouraging that we are, to a certain extent, masters of our own destiny. We are privately owned, have no debt and continue to grow strongly. As I have emphasised before, we continue to focus on those aspects which we can influence; to deliver on the core plan that we set out in 2006 and ensure that, in spite of prevailing market and economic conditions, we focus on delivering market leading returns for our investors and, for our Partners, a business that is growing strongly and steadily whilst maintaining a focus on our core values.

Current position

2010 was a year of development for R&M; a year of strong asset growth, a year where we saw the Global Equity Division build on the very strong foundation established in 2009, a year when the UK Division consolidated in the face of challenging local conditions.

The UK Equity Division has continued to thrive and win a growing market share of available mandates. The UK High Alpha strategy now has assets of £580m (including assets in transition) and the UK Income fund has recently gone through the £60m barrier and is continuing to see strong demand from across the market. The Global Equity Division has fully established itself in a highly competitive market and has now raised over £850m including assets in transition. We expanded the Global product suite in April 2010 with the launch of the Global High Income Fund managed by Alex O'Reilly.

River and Mercantile Asset Management LLP

Chief executive's statement

At the time of writing this review the Partnership is managing assets in excess of £1.75bn (including assets in transition). This represents an increase of 45% over last year, this asset growth continues to be in line with our original expectations, and we hope to maintain this momentum over the coming years. We have clearly established capacity constraints across our Investment Divisions, which are set by our portfolio managers, and whilst for certain strategies we are near the point at which we will “soft close”, there is still available capacity across the business.

We have continued to invest in the Partnership and have made a number of additions to the support team to ensure that we continue to deliver as our business grows and evolves. We must always ensure that service levels are not compromised as growth builds and this is a program that will continue over the coming years. Cost disciplines continue to be at the forefront of our minds and this should help the business achieve significant operational gearing over the coming years.

Future plans

I hope this will be another year where we can deliver ‘more of the same’. We must continue to focus on and invest in our core business. The development of further Investment Division will be reviewed during the year and we will examine those opportunities, which we believe will continue the development of our business in the measured manner of our first four years.

In the meantime, I would like to take this opportunity to thank those clients who have continued to support our funds and to welcome the many new investors during the period. Our clients’ continued support is imperative and we hope that we have met your needs in providing clear and concise reporting on all of our activities across our range of funds.

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



James Barham
Chief Executive

11th July 2011

River and Mercantile Asset Management LLP

Report of the members for the year ended 31 March 2011

The members present their report together with the audited financial statements for the year ended 31 March 2011.

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 2011 attributable to members before profit share was £3,310,016 (2010: £2,334,136).

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 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 2011 (continued)

Members' responsibilities

The members are responsible for preparing the members' report and financial statements in accordance with applicable law and regulation.

The Limited Liability Partnerships (*Accounts and Audit*) (*Application of the Companies Act 2006*) *Regulations 2008* require the members to prepare financial statements for each financial year. Under these regulations the members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under these regulations the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Limited Liability Partnership and of the profit or loss of the Limited Liability Partnership for that period.

In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Limited Liability Partnership will continue in business.

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the Limited Liability Partnership's transactions, disclose with reasonable accuracy at any time the financial position of the Limited Liability Partnership, and enable them to ensure that the financial statements comply with the Limited Liability Partnerships (*Accounts and Audit*) (*Application of the Companies Act 2006*) *Regulations 2008*. They are also responsible for safeguarding the assets of the Limited Liability Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 2011 (*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 Partnership 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 the partnership's website.

Auditors

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

Approved by the members of the Limited Liability Partnership on 11 July 2011



James Barham
Designated Member

River and Mercantile Asset Management LLP

Report of the independent auditors

INDEPENDENT AUDITOR'S REPORT 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 2011 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with the Limited Liability Partnerships (Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the limited liability partnership's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the partnership and the partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditors

As explained more fully in the statement of members' responsibilities, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 March 2011 and of its profit for the year then ended.
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008.

River and Mercantile Asset Management LLP

Report of the independent auditors *(continued)*

Opinion on other matters

In our opinion the information given in the members' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Neil Fung-On (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

Date: 11 July 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

River and Mercantile Asset Management LLP

Profit and loss account for the year ended 31 March 2011

	Note	2011 £	2010 £
Turnover	2	6,747,603	5,906,706
Cost of sales		(970,583)	(1,408,946)
Gross profit		5,777,020	4,497,760
Administrative expenses		(2,498,354)	(2,229,766)
Operating profit	3	3,278,666	2,267,994
Unrealised profit on investments		25,366	60,430
Interest receivable		5,984	5,712
Profit for the financial year before members' remuneration and profit shares	5	3,310,016	2,334,136
Members' remuneration charged as an expense		(3,310,016)	(2,334,136)
Result for the financial year available for discretionary division among the members		-	-

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 13 to 21 form part of these financial statements.

River and Mercantile Asset Management LLP

Balance sheet at 31 March 2011

Partnership Number: OC317647

	Note	2011 £	2010 £
Fixed assets			
Tangible fixed assets	6	63,184	42,682
Current assets			
Investments	7	259,154	230,315
Debtors	8	4,535,268	7,501,270
Loans and other debts due from members	10	305,799	337,696
Cash at bank and in hand		1,811,803	3,010,185
		6,912,024	11,079,466
Creditors: amounts falling due within one year	9	(3,071,613)	(7,783,568)
Net current assets		3,840,411	3,295,898
Net assets attributable to members		3,903,595	3,338,580
Represented by:			
Loans and other debts due to members within one year			
Other amounts	10	1,009,232	444,217
Equity			
Members' capital	10	3,798,804	3,798,804
Other reserves	10	(904,441)	(904,441)
		2,894,363	2,894,363
		3,903,595	3,338,580
Total members' interests			
Members' capital	10	3,798,804	3,798,804
Loans and other debt due to members	10	1,009,232	444,217
Loans and other debt due from members	10	(305,799)	(337,696)
Other reserves	10	(904,441)	(904,441)
Total members' interest		3,597,796	3,000,884

The financial statements were approved by the members of the Limited Liability Partnership and authorised for issue on 11 July 2011



James Barham

Designated Member

The notes on pages 13 to 21 form part of these financial statements.

River and Mercantile Asset Management LLP

Cash flow statement for the year ended 31 March 2011

	Note	2011 £	2010 £
Net cash inflow from operating activities	11	1,574,778	2,105,469
Returns on investments and servicing of finance			
Interest received		5,984	5,712
Capital expenditure and financial investment			
Purchase of investments		(3,473)	(76,999)
Purchase of tangible fixed assets		(62,567)	(41,815)
Transactions with members			
Members' capital introduced		-	781,000
Drawings		(2,713,104)	(1,441,020)
(Decrease)/increase in cash	12	<u>(1,198,382)</u>	<u>1,332,347</u>

The notes on pages 13 to 21 form part of these financial statements.

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2011

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 2010).

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 2011 (*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 independently 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.

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 2011 (*continued*)

3 Operating profit

	2011	2010
This has been arrived at after charging / (crediting):	£	£
Depreciation	42,065	40,749
Foreign exchange gain	(1,380)	(7,072)
Auditors' remuneration	12,000	12,000
Rental of land and buildings under operating leases	73,566	74,436

4 Employees

	2011	2010
Staff costs consist of:	£	£
Wages and salaries	492,347	458,102
Social security costs	61,915	55,875
Other pension costs	34,548	27,447

The average number of employees (excluding members) during the period was 9 (2010: 9).

5 Members' share of profits

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.

	2011	2010
	Number	Number
Average number of members	18	17

	2011	2010
	£	£
Average profit per member	183,890	137,302

The amount attributable to the member with largest allocation of profit was £640,685 (2010: £395,564).

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2011 *(continued)*

6 Tangible fixed assets

	Computer Equipment £	Fixtures & Fittings £	Total £
Cost:			
At 31 March 2010	157,578	85,226	242,804
Additions	62,155	412	62,567
At 31 March 2011	219,733	85,638	305,371
Depreciation:			
At 31 March 2010	(128,570)	(71,552)	(200,122)
Charge for the year	(32,194)	(9,871)	(42,065)
At 31 March 2011	(160,764)	(81,423)	(242,187)
Net book value			
At 31 March 2010	29,008	13,674	42,682
At 31 March 2011	58,969	4,215	63,184

7 Investments

	£
Market value at 31 March 2010	230,315
Additions at cost	3,473
Unrealised gain on investments	25,366
Market value at 31 March 2011	259,154

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2011 (*continued*)

8 Debtors

	2011	2010
	£	£
Trade debtors	22,245	44,460
Investment management business debtors	2,524,910	6,058,723
VAT recoverable	-	11,888
Prepayments and accrued income	1,988,113	1,386,199
	<u>4,535,268</u>	<u>7,501,270</u>

9 Creditors: amounts falling due within one year

	2011	2010
	£	£
Trade creditors	207,867	51,595
Investment management business creditors	2,430,385	7,077,104
Accruals	416,575	654,869
VAT Payable	16,786	-
	<u>3,071,613</u>	<u>7,783,568</u>

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2011 (*continued*)

10 Members' interests

	Members' capital	Other reserves	Total	Loans and other debt due from members	Loans and other debt due to members	Total
	£	£	£	£		£
Members' interests at 31 March 2010	3,798,804	(904,441)	2,894,363	(337,696)	444,217	3,000,884
Members' profit share charged as an expense	-	-	-	830,402	2,479,614	3,310,016
Drawings	-	-	-	(798,505)	(1,914,599)	(2,713,104)
Members' interests at 31 March 2011	3,798,804	(904,441)	2,894,363	(305,799)	1,009,232	3,597,796

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 Financial Services Authority regulates the Partnership and the Partnership is required to comply with the Capital Requirements Directive.

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2011 *(continued)*

11 Reconciliation of operating profit to net cash inflow from operating activities

	2011	2010
	£	£
Operating profit	3,278,666	2,267,994
Depreciation	42,065	40,749
Increase in debtors	(567,811)	(800,717)
Decrease/(increase) in investment management business debtors	3,533,813	(5,588,270)
(Decrease)/increase in creditors	(65,236)	17,715
(Decrease)/increase in investment management business creditors	(4,646,719)	6,167,998
Net cash inflow from operating activities	<u>1,574,778</u>	<u>2,105,469</u>

12 Reconciliation of net cash outflow to movement in net cash

	2011
	£
Cash in hand and at bank at 1 April 2010	3,010,185
Decrease in cash in the year	(1,198,382)
Cash in hand and at bank at 31 March 2011	<u>1,811,803</u>

13 Financial risk management

The Partnership differentiates its assets and liabilities such that Investments are classed as fair value through the profit and loss, all other assets are classed as loans and other receivables at amortised cost and all Liabilities are classed as Financial Liabilities carried at amortised cost.

In the normal course of its business the Partnership will be exposed to a range of financial risks including market, credit and liquidity risk.

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.

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2011 (*continued*)

Market risk

Market risk exposures will arise from investments held in the fund. 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

The Partnership's exposure to credit risk from different asset classes is summarised below:

	Carrying Value & Maximum Exposure	
	31 March 2011	31 March 2010
	£	£
Cash	<u>1,811,803</u>	<u>3,010,185</u>
Investment management business debtors	2,524,910	6,058,723
Other third parties	<u>2,010,358</u>	<u>1,442,547</u>
	<u>4,535,268</u>	<u>7,501,270</u>

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.

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 and mitigates this risk by holding cash in its ACD account.

The Partnership experiences, in its role as ACD, 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.

At the reporting date, none of the amounts included within trade and other debtors are past due or impaired.

Currency risk

At the balance sheet date the Partnership only had a foreign currency exposure in US dollars which was cash held of \$166 (2010 : \$166).

River and Mercantile Asset Management LLP

Notes to the financial statements for the year ended 31 March 2011 (continued)

Liquidity risk

The Partnership is equity funded and has minimal liquidity risk. The partnership mitigates liquidity risk by keeping sufficient cash.

Capital management policies and procedures

The Partnerships' regulated status dictates its capital management policies. The Partnership follows all of the relevant rules for capital adequacy as prescribed by the FSA.

14 Financial commitments

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

	2011	2010
Operating leases which expire:		
Between one and 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:

	2011	2010
	£	£
Transactions with Pacific Investments Plc		
Accountancy Fees	25,000	12,000
Corporate Finance Fees	<u>25,000</u>	<u>25,000</u>
	<u>50,000</u>	<u>37,000</u>

Included in creditors at the year end is an amount of £15,000 (2010 - £10,868) due to Pacific Investments Plc. The relationship of Pacific Investments Plc to the Partnership is that a subsidiary of Pacific Investments Plc is a member of the Partnership.

16 Ultimate controlling parties

At 31 March 2011 the ultimate controlling parties were the designated members.

