

**RIVER AND MERCANTILE**  
ASSET MANAGEMENT

**River and Mercantile Funds ICVC**  
**Short Report for the Year Ended**  
**31 March 2010**



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# River View

## Introduction

A year of immense change for markets, economies and River and Mercantile. In the last full report in April 2009 I took the opportunity to touch on some of the enormous upheavals in our banking industry and the ripple effect this was having on the wider economy. There was a glimmer of hope that there were some green shoots tentatively poking their heads above ground, however it was clear there was a high degree of uncertainty permeating consensus.

The market did indeed recover and at some pace. By the end of 2009 the UK FTSE All Share Index had risen by 59% from the lows of 6 March 2009, a dramatic recovery reflecting the collective sigh of relief that emanated from all participants that the end of the world had not arrived, and equally mirroring the scale of market falls that we had witnessed in the previous 12 months. Markets are not the only part of the equation and there continues to be enormous concern that we have not seen the same level of recovery from our economy. We are now faced with an unprecedented level of public and private debt not just in the UK but across much of the developed world, and dealing with this is going to require significant change.

Time will tell whether this change is forthcoming, and as a business we must continue to focus on those aspects which we can influence. As a colleague frequently reminds me, we must continue to leverage our strengths and defend our weaknesses. This is something we have strived to apply over the last twelve months. We have continued 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

2009 was also a year of change for R&M; a year of strong asset growth, a year where we saw the establishment of the second Division, a year in which R&M cemented itself as a leading investment boutique.

The UK Equity Division has continued to thrive and we manage assets on behalf of a growing range of institutional and retail clients across six specialist strategies. The major change over the last twelve months has been the arrival of the Global Equities Division. We recruited Alex Stanić, who was Head of Global Equities at Newton Investment Management along with his colleague, Alex O'Reilly and we also recruited a team of senior global equity analysts from Lazard Asset Management. We launched two strategies for the Global Division in October 2009 and have since raised over £300 million in assets principally from the institutional market. The original business plan set out to create three centres of excellence in fund management; UK Equities, Global Equities and a third unspecified Division to be known as special products. We recognised the importance of building successive Divisions as opposed to seeking to achieve an instantaneous diversified business with all the associated risks.

## River View continued

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At the time of writing the Partnership manages assets in excess of £1.2 billion (including assets in transition) of which over £300 million is in the ICVC. This is an increase of 50% over the figures we reported this time 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.

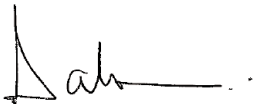
We have continued to invest in the Partnership and undertake a series of strategic reviews to ensure that we are conscious of potential operational and service orientated “bottlenecks” that are the result of strong growth and invest ahead of the curve.

### Future Plans

The focus over the next twelve months will be to build on the momentum in the UK and Global Divisions, as illustrated by the launch of the Global High Income Fund in April this year. We will continue to research and review our options for the third Division and whilst in an ideal world we will not look to develop this until at least 2012, we must continue to grasp opportunities as they appear whilst continuing to be resolute in not compromising our quality threshold.

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.



Mr James Barham  
Chief Executive

# UK Equity High Alpha Fund

## Investment Objective and Policy

The investment objective of the Sub-fund is to achieve capital growth by investing in a focussed portfolio of investments which shall primarily consist of UK equities which offer the prospect of superior long term growth.

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. The Manager adheres to the investment guidelines and in this way, monitors and controls the exposure to risk from any type of security, sector or issuer.

## Fund Facts

**Fund Inception** 28 November 2006

### Accounting Dates

Interim 30 September  
Final 31 March

### Distribution Payment Dates

Interim 30 November  
Final 31 May

## Distribution Details

### A-Class

The distribution payable on 31 May 2010 is 0.3379p net per share for income shares.

### B-Class

The distribution payable on 31 May 2010 is 3.2001p net per share for accumulation shares.

### Z-Class

The distribution payable on 31 May 2010 is 6.0534p net per share for accumulation shares.

## Total Expense Ratios

	31 March 2010	31 March 2009
<b>A-Class Income shares</b>	1.64%	1.60%
<b>B-Class Accumulation shares</b>	0.90%	0.93%
<b>Z-Class Accumulation shares</b>	0.15%	0.13%

The Total Expense Ratio is the ratio of the Sub-fund's operating costs (excluding overdraft interest) to the average net assets of the Sub-fund.

# UK Equity High Alpha Fund

## Market Background

Following the traumatic market background of 2008, the last twelve months has seen a much more positive performance from world equity markets. Against a background of stability returning to the global financial system, and unprecedented levels of fiscal and monetary stimulus by governments around the globe, March 2009 represented the low point in the market downturn. Over the year, the FTSE All Share Index returned 52.3%, with positive returns over the four quarters. Lead indicators and investment related data began to tell a positive story – economies were moving out of recession; company profits, having bottomed-out, were recovering and, in some cases, even surprising on the upside.

Markets surged in the second and third quarters of 2009, as investors bought in to “bombed-out” financials and recovery stocks. Small and medium sized companies outperformed, reversing the pattern seen over the previous two years. Towards the end of the year, we saw a shift in investor appetite as focus moved towards global growth stocks and emerging markets, with investors seeking exposure to less leveraged economies that were not directly caught up in the credit crisis.

## Portfolio Review & Activity

The River and Mercantile UK Equity High Alpha Fund achieved a return of 71.2% for the year to 31 March 2010, compared to the FTSE All Share Index which returned 52.3%.

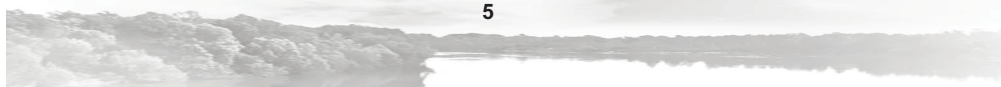
The Sub-fund benefited from its significant exposure to recovery stocks and smaller companies, both of which made substantial gains in the six months following the stock market low point of March 2009. A number of the Sub-fund’s holdings, including Avis Europe, Galiform Furniture, Cookson Group and Pace all contributed to the strong performance over the year. Towards the end of the period, the Sub-fund’s overweight exposure to domestic banks also benefited performance, as these shares recovered strongly in the early part of 2010. However, lack of exposure to global growth stocks in the same period held the Sub-fund back slightly.

Over the year we increased our position in ITV, on the back of a new management team being appointed and as a return to advertising growth is leading to a re-rating of the company. A great example of a Growth franchise that we bought is CVS, an operator of veterinary practices, which has seen revenues grow even in the depths of the recession and is a company whose profit growth outlook is well above average.

We sold out of Prudential, following strong performance and a full realisation of our original investment case. The sale was timely as it preceded their announcement regarding the acquisition of AIA, which is an attractive deal strategically, but at a full price. We also exited our holding in Delta when it announced it had received a bid, selling the shares at a premium to the value of the bid.

## Outlook

The outlook for economies is robust, as the recovery phase takes hold around the world and the valuation of equities, particularly in the UK, remains supportive of positive returns. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing. We believe these are strong factors and expect them to deliver equally strong returns in the future.



# UK Equity High Alpha Fund

## Top 10 Holdings

31 March 2010	% of Sub-fund	31 March 2009	% of Sub-fund
HSBC Holdings	6.60	BP	7.54
BP	4.51	Vodafone Group	6.07
Vodafone Group	4.11	GlaxoSmithKline	5.93
GlaxoSmithKline	4.10	Royal Dutch Shell (B)	5.75
Rio Tinto	3.90	HSBC Holdings	4.07
Royal Dutch Shell (B)	3.72	AstraZeneca	3.43
Barclays	3.46	Rio Tinto	2.40
Lloyds Banking Group	3.02	Unilever	2.10
Anglo American	2.91	Xstrata	1.95
AstraZeneca	2.64	Anglo American	1.90

## Sector Breakup

Sector	Portfolio %	Benchmark Index*	Difference %
Oil & Gas	12.84	17.99	(5.15)
Basic Materials	10.40	12.67	(2.27)
Industrials	11.83	7.14	4.69
Consumer Goods	4.37	11.29	(6.92)
Health Care	6.80	7.45	(0.65)
Consumer Services	14.89	9.88	5.01
Telecommunications	4.11	5.76	(1.65)
Utilities	1.28	3.33	(2.05)
Financials	26.67	22.93	3.74
Technology	6.21	1.56	4.65

\* Source: Style Research.

## Portfolio Turnover

	Year to 31 March 2010	Year to 31 March 2009
Total purchases for the year	£61,919,054	£19,986,562
Total sales for the year	£33,435,885	£16,144,730
Portfolio Turnover Rate	139.94%	141.74%

The Portfolio Turnover Rate (PTR) gives an indication of how much the Sub-fund's investments have changed during the year. As the Sub-fund pays for any charges involved with buying and selling investments, the higher the percentage, the more costs it has paid.



# UK Equity High Alpha Fund

## Fund Performance

### Net asset values

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
<b>31 March 2008</b>			
A-Class Income shares	3,257,788	88.07	3,699,056
Z-Class Accumulation shares	19,389,971	457.66	4,236,746
<b>31 March 2009</b>			
A-Class Income shares	681,936	55.59	1,226,700
B-Class Accumulation shares	9,340	233.50	4,000
Z-Class Accumulation shares	16,891,212	304.68	5,543,919
<b>31 March 2010</b>			
A-Class Income shares	990,240	94.48	1,048,061
B-Class Accumulation shares	17,276,655	401.50	4,303,061
Z-Class Accumulation shares	45,149,685	527.77	8,554,795

# UK Equity High Alpha Fund

## Fund Performance continued

### Share price range & net revenue

Year	Highest share price	Lowest share price	Net revenue
<b>A-Class Income shares</b>			
2006 <sup>(1)</sup>	103.54p	100.00p	–
2007	115.30p	96.63p	0.9123p
2008	99.17p	55.48p	2.1272p
2009	92.63p	50.06p	1.6745p
2010 <sup>(3)</sup>	95.99p	85.82p	0.3379p
<b>B-Class Accumulation shares*</b>			
2008 <sup>(2)</sup>	314.78p	226.97p	–
2009	390.10p	205.46p	8.3810p
2010 <sup>(3)</sup>	406.44p	363.01p	3.2001p
<b>Z-Class Accumulation shares</b>			
2006 <sup>(1)</sup>	533.03p	500.00p	–
2007	580.36p	495.08p	11.0588p
2008	508.39p	295.35p	17.5332p
2009	511.09p	267.99p	14.2170p
2010 <sup>(3)</sup>	534.24p	476.68p	6.0534p

\*B-Class Accumulation shares were available from 21 November 2008.

(1) From 28 November 2006.

(2) From 21 November 2008.

(3) The above table shows highest and lowest share prices to 31 March 2010. This table also shows net revenue payable on 31 May 2010.

The value of investments and any income generated may go down as well as up and is not guaranteed. An investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of investments.

# UK Equity Smaller Companies Fund

## Investment Objective and Policy

The investment objective of the Sub-fund is to achieve capital growth by investing in a portfolio of investments which shall primarily consist of UK equities which reside in the bottom 10% of the UK stock market in terms of market capitalisation.

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. The Manager adheres to the investment guidelines and in this way, monitors and controls the exposure to risk from any type of security, sector or issuer.

## Fund Facts

**Fund Inception** 30 November 2006

### Accounting Dates

Interim 30 September  
Final 31 March

### Distribution Payment Dates

Interim 30 November  
Final 31 May

## Distribution Details

### A-Class Income shares

The distribution payable on 31 May 2010 is 0.2129p net per share for income shares.

### Z-Class Accumulation shares

The distribution payable on 31 May 2010 is 4.8083p net per share for accumulation shares.

## Total Expense Ratios

	31 March 2010	31 March 2009
<b>A-Class Income shares</b>	1.65%	1.61%
<b>Z-Class Accumulation shares</b>	0.14%	0.09%

The Total Expense Ratio is the ratio of the Sub-fund's operating costs (excluding overdraft interest) to the average net assets of the Sub-fund.

# UK Equity Smaller Companies Fund

## Market Background

Following the traumatic market background of 2008, the last twelve months has seen a much more positive performance from world equity markets. Against a background of stability returning to the global financial system and unprecedented levels of fiscal and monetary stimulus by governments around the globe, March 2009 represented the low point in the market downturn. Over the year, the Hoare Govett Smaller Companies (ex IT) Index achieved a return of 69.0%. Lead indicators and investment related data began to tell a positive story – economies were moving out of recession; company profits, having bottomed-out, were recovering and, in some cases, even surprising on the upside.

Markets surged in the second and third quarters of 2009, as investors bought in to “bombed-out” financials and recovery stocks. Small and medium sized companies outperformed, reversing the pattern seen over the previous two years. Towards the end of the year, we saw a shift in investor appetite as focus moved towards global growth stocks and emerging markets, with investors seeking exposure to less leveraged economies that were not directly caught up in the credit crisis.

## Portfolio Review & Activity

The River and Mercantile UK Equity Smaller Companies Fund achieved a return of 64.4% for the year to 31 March 2010, compared to the Hoare Govett Smaller Companies (ex IT) Index which returned 69.0% and the FTSE Small Cap (ex IT) Index which gained 68.7%. Stocks that contributed to performance included our overweight positions in Pace Micro Technology, Petropavlosk, ASOS and RPC Group, alongside our underweight position in Dana Petroleum. Detracting from performance were our overweights in Tribal Group, RM and Laird Group.

Portfolio activity over the year has been focused on buying new positions and adding further to current positions that meet our above average Potential, Valuation and Timing criteria. Within Quality we exited De la Rue, Hill & Smith and Dechra Pharmaceuticals as these weakened relatively. Hiscox (a leading Lloyds underwriter) and Robert Wiseman Dairies (market leading UK milk producer) were among the new Quality holdings purchased. Within Growth we exited McBride and Booker, banking material profits in the process, and purchased Synergy Healthcare (hospital outsourcing services) and CSF Group (Asian data-hosting). Within Recovery we exited Lookers (UK car retail), Brammer (industrial fasteners) and Centaur Media (B2B), purchasing Collins Stewart Tullet (wealth management and stock broking), UK Mail (business post services) and SIG (building insulation distributor).

## Outlook

The outlook for economies is robust, as the recovery phase takes hold around the world and the valuation of equities, particularly in the UK, remains supportive of positive returns. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing. We have high conviction in the holdings which represent a diverse mix of high Quality, Growth, Recovery and Asset-backed names and we believe these are strong factors which will deliver equally strong returns in the future.

# UK Equity Smaller Companies Fund

## Top 10 Holdings

31 March 2010	% of Sub-fund	31 March 2009	% of Sub-fund
CVS	2.02	Babcock International Group	3.37
Anglo Pacific Group	1.98	Pace Micro Technology	2.91
Domino Printing Sciences	1.85	Celsis International	2.65
Hogg Robinson Group	1.81	McBride	2.43
Halfords Group	1.76	Mouchel Group	2.32
Synergy Healthcare	1.74	Hardy Underwriting Bermuda	2.27
Innovation Group	1.68	Chemring Group	2.21
CPP Group	1.66	Kier Group	2.07
Bodycote	1.63	Connaught	2.01
Chesnara	1.62	Diploma	1.99

## Sector Breakup

Sector	Portfolio %	Benchmark Index*	Difference %
Oil & Gas	7.04	5.19	1.85
Basic Materials	1.98	5.93	(3.95)
Industrials	27.86	28.87	(1.01)
Consumer Goods	5.13	8.61	(3.48)
Health Care	3.33	3.43	(0.10)
Consumer Services	17.86	22.55	(4.69)
Telecommunications	3.71	0.35	3.36
Utilities	–	0.06	(0.06)
Financials	17.83	18.35	(0.52)
Technology	7.96	6.67	1.29

\*Source: Style Research.

## Portfolio Turnover

	Year to 31 March 2010	Year to 31 March 2009
Total purchases for the year	£42,096,341	£27,850,559
Total sales for the year	£48,587,680	£23,398,213
Portfolio Turnover Rate	219.73%	96.67%

The Portfolio Turnover Rate (PTR) gives an indication of how much the Sub-fund's investments have changed in the year. As the Sub-fund pays for any charges involved with buying and selling investments, the higher the percentage, the more costs it has paid.



# UK Equity Smaller Companies Fund

## Fund Performance

### Net asset values

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
<b>31 March 2008</b>			
A-Class Income shares	36,319,512	88.53	41,027,252
Z-Class Accumulation shares	847,240	454.31	186,491
<b>31 March 2009</b>			
A-Class Income shares	25,068,722	57.92	43,281,538
Z-Class Accumulation shares	514,578	306.16	168,073
<b>31 March 2010</b>			
A-Class Income shares	36,087,198	92.92	38,838,166
Z-Class Accumulation shares	516,452	505.87	102,092

### Share price range & net revenue

Year	Highest share price	Lowest share price	Net revenue
<b>A-Class Income shares</b>			
2006 <sup>(1)</sup>	106.69p	99.38p	–
2007	113.97p	92.97p	0.4425p
2008	96.48p	59.40p	0.2579p
2009	93.05p	57.52p	1.2423p
2010 <sup>(2)</sup>	94.46p	88.19p	0.2129p
<b>Z-Class Accumulation shares</b>			
2006 <sup>(1)</sup>	526.76p	496.97p	–
2007	573.95p	476.83p	8.5676p
2008	492.05p	311.33p	4.7589p
2009	502.09p	302.69p	8.2004p
2010 <sup>(2)</sup>	513.09p	478.04p	4.8083p

<sup>(1)</sup> From 30 November 2006.

<sup>(2)</sup> The above table shows highest and lowest share prices to 31 March 2010. This table also shows net revenue payable on 31 May 2010.

The value of investments and any income generated may go down as well as up and is not guaranteed. An investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of investments.



# UK Equity Unconstrained Fund

## Investment Objective and Policy

The investment objective of the Sub-fund is to achieve capital growth through investing in a concentrated portfolio which will primarily consist of UK equities. The Sub-fund will not be restricted by reference to a benchmark, sector constraints or company size.

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. The Manager adheres to the investment guidelines and in this way, monitors and controls the exposure to risk from any type of security, sector or issuer.

## Fund Facts

**Fund Inception** 22 March 2007

### Accounting Dates

Interim 30 September  
Final 31 March

### Distribution Payment Dates

Interim 30 November  
Final 31 May

## Distribution Details

### A-Class Income shares

The distribution payable on 31 May 2010 is 0.6058p net per share for income shares.

### Z-Class Accumulation shares

The distribution payable on 31 May 2010 is 7.0126p net per share for accumulation shares.

## Total Expense Ratios

	31 March 2010	31 March 2009
<b>A-Class Income shares</b>	1.90%	1.83%
<b>Z-Class Accumulation shares</b>	0.24%	0.09%

The Total Expense Ratio is the ratio of the Sub-fund's operating costs (excluding overdraft interest) to the average net assets of the Sub-fund.

# UK Equity Unconstrained Fund

## Market Background

Following the traumatic market background of 2008, the last twelve months has seen a much more positive performance from world equity markets. Against a background of stability returning to the global financial system, and unprecedented levels of fiscal and monetary stimulus by governments around the globe, March 2009 represented the low point in the market downturn. Over the year, the FTSE All Share Index returned 52.3%, with positive returns over the four quarters. Lead indicators and investment related data began to tell a positive story – economies were moving out of recession; company profits, having bottomed-out, were recovering and, in some cases, even surprising on the upside.

Markets surged in the second and third quarters of 2009, as investors bought in to “bombed-out” financials and recovery stocks. Small and medium sized companies outperformed, reversing the pattern seen over the previous two years. Towards the end of the year, we saw a shift in investor appetite as focus moved towards global growth stocks and emerging markets, with investors seeking exposure to less leveraged economies that were not directly caught up in the credit crisis.

## Portfolio Review & Activity

The River and Mercantile UK Equity Unconstrained Fund achieved a return of 42.6% for the year to 31 March 2010, compared to the FTSE All Share Index which returned 52.3%.

The Sub-fund was relatively defensively positioned throughout the year. Positive contributors to the Sub-fund’s performance were Daily Mail and Inchcape. Having underperformed in the market downturn, these companies all performed strongly on the way back up, making a significant contribution. Chemring continued its outperformance, growing strongly in the defence industry.

A relative lack of exposure to companies that benefited from the emergence of global growth late in 2009 was detrimental to the Sub-fund’s return. These included Standard Chartered and SABMiller, both of whom performed impressively during this time. The Sub-fund was also held back by our exposure to non-life insurers, including Amlin and Hiscox, over the year. Both companies underperformed the strongly rising market due to fears over premium pricing pressure in the sector.

Over the year, we added to our position in BG Group, with the desire to keep some exposure to resources despite the economic headwinds. Unlike BP and Royal Dutch Shell, BG Group has strong forecast production growth of 6%+ out until 2020 and, having underperformed the market in the second half of 2009, we were able to buy these shares on an attractive valuation.

We also purchased Wolseley at the end of 2009, an undervalued building merchant with leading market positions globally, which has strengthened its balance sheet over the last year.

Land Securities was exited after commercial property yields tightened through the final quarter of 2009 and, with the shares trading at a small premium to book (asset backing), we felt the shares were unlikely to make much further progress. We also sold Firstgroup, a bus and rail company in the UK and US which, whilst recovering strongly from a profit warning of twelve months ago, remains very geared and we felt that earnings estimates would continue to come under pressure.



# UK Equity Unconstrained Fund

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## Outlook

The outlook for economies is mixed, as the recovery phase has taken hold around the world and the valuation of equities, particularly in the UK, remains supportive of positive returns. The last twelve months has left many high quality companies looking relatively undervalued and we believe that the oversold Defensive sectors could be major beneficiaries of future sector rotation. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing, and we have high conviction in our holdings and their potential to deliver strong returns over the next few years.

# UK Equity Unconstrained Fund

## Top 10 Holdings

31 March 2010	% of Sub-fund	31 March 2009	% of Sub-fund
GlaxoSmithKline	5.66	GlaxoSmithKline	5.96
BP	5.48	BP	5.83
British American Tobacco	5.33	AstraZeneca	5.21
Anglo American	4.85	Vodafone Group	4.63
HSBC Holdings	4.74	BAE Systems	4.37
Vodafone Group	4.65	Babcock International Group	4.13
Amlin	4.62	Reed Elsevier	3.79
AstraZeneca	4.56	Cable & Wireless	3.57
Smith & Nephew	3.73	BSkyB	3.54
BAE Systems	3.52	Rio Tinto	3.15

## Sector Breakup

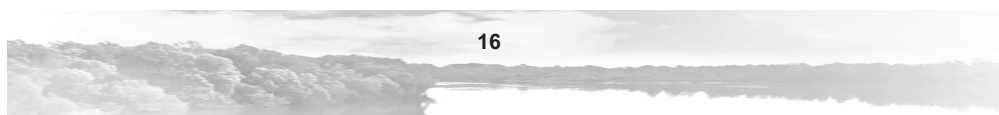
Sector	Portfolio %	Benchmark Index *	Difference %
	%	%	%
Oil & Gas	8.95	17.99	(9.04)
Basic Materials	7.92	12.67	(4.75)
Industrials	15.84	7.14	8.70
Consumer Goods	16.67	11.29	5.38
Health Care	13.95	7.45	6.50
Consumer Services	8.56	9.88	(1.32)
Telecommunications	4.65	5.76	(1.11)
Utilities	2.42	3.33	(0.91)
Financials	18.07	22.93	(4.86)
Technology	1.27	1.56	(0.29)

\* Source: Style Research.

## Portfolio Turnover

	Year to 31 March 2010	Year to 31 March 2009
Total purchases for the year	£47,516,071	£140,237,821
Total sales for the year	£87,578,297	£64,371,511
Portfolio Turnover Rate	161.31%	151.97%

The Portfolio Turnover Rate (PTR) gives an indication of how much the Sub-fund's investments have changed during the year. As the Sub-fund pays for any charges involved with buying and selling investments, the higher the percentage, the more costs it has paid.



# UK Equity Unconstrained Fund

## Fund Performance

### Net asset values

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
<b>31 March 2008</b>			
A-Class Income shares	22,134,239	92.84	23,841,402
Z-Class Accumulation shares	370,940	477.07	77,753
<b>31 March 2009</b>			
A-Class Income shares	56,169,026	57.71	97,328,653
Z-Class Accumulation shares	4,085,252	307.40	1,328,948
<b>31 March 2010</b>			
A-Class Income shares	28,672,188	80.36	35,677,710
Z-Class Accumulation shares	7,416,476	443.09	1,673,804

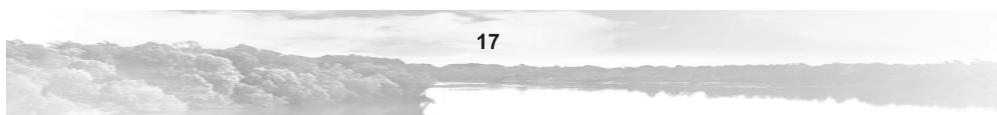
### Share price range & net revenue

Year	Highest share price	Lowest share price	Net revenue
<b>A-Class Income shares</b>			
2007 <sup>(1)</sup>	105.33p	92.06p	0.5040p
2008	102.09p	57.76p	0.4905p
2009	78.67p	56.45p	1.3098p
2010 <sup>(2)</sup>	81.65p	74.73p	0.6058p
<b>Z-Class Accumulation shares</b>			
2007 <sup>(1)</sup>	534.95p	463.48p	7.0646p
2008	525.92p	302.40p	6.7145p
2009	428.61p	297.39p	13.0039p
2010 <sup>(2)</sup>	446.67p	407.86p	7.0126p

<sup>(1)</sup> From 22 March 2007.

<sup>(2)</sup> The above table shows highest and lowest share prices to 31 March 2010. This table also shows net revenue payable on 31 May 2010.

The value of investments and any income generated may go down as well as up and is not guaranteed. An investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of investments.



# UK Equity Fund

## Investment Objective and Policy

The investment objective of the Sub-fund is to achieve capital growth by investing in the equities of the established UK companies which offer the prospect of long term capital growth within a portfolio that has a balanced risk profile.

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. The Manager adheres to the investment guidelines and in this way, monitors and controls the exposure to risk from any type of security, sector or issuer.

## Fund Facts

**Fund Inception** 25 February 2008

### Accounting Dates

Interim 30 September  
Final 31 March

### Distribution Payment Dates

Interim 30 November  
Final 31 May

## Distribution Details

### A-Class Income shares

The distribution payable on 31 May 2010 is 0.8417p net per share for income shares.

### Z-Class Accumulation shares

The distribution payable on 31 May 2010 is 8.2250p net per share for accumulation shares.

## Total Expense Ratios

	31 March 2010	31 March 2009
<b>A-Class Income shares</b>	1.63%	1.75%
<b>Z-Class Accumulation shares</b>	0.16%	0.26%

The Total Expense Ratio is the ratio of the Sub-fund's operating costs (excluding overdraft interest) to the average net assets of the Sub-fund.

# UK Equity Fund

## Market Background

Following the traumatic market background of 2008, the last twelve months has seen a much more positive performance from world equity markets. Against a background of stability returning to the global financial system, and unprecedented levels of fiscal and monetary stimulus by governments around the globe, March 2009 represented the low point in the market downturn. Over the year, the FTSE All Share Index returned 52.3%, with positive returns over the four quarters. Lead indicators and investment related data began to tell a positive story – economies were moving out of recession; company profits, having bottomed-out, were recovering and, in some cases, even surprising on the upside.

Markets surged in the second and third quarters of 2009, as investors bought in to “bombed-out” financials and recovery stocks. Small and medium sized companies outperformed, reversing the pattern seen over the previous two years. Towards the end of the year, we saw a shift in investor appetite as focus moved towards global growth stocks and emerging markets, with investors seeking exposure to less leveraged economies that were not directly caught up in the credit crisis.

## Portfolio Review & Activity

The River and Mercantile UK Equity Fund achieved a return of 44.8% for the year to 31 March 2010, compared to the FTSE All Share Index which returned 52.3%.

The Sub-fund was relatively defensively positioned throughout the year. Positive contributors to the Sub-fund’s performance were Pace Micro Technology, McBride, and Inchcape. Having underperformed in the market downturn, these companies all performed strongly on the way back up, making a significant contribution.

A relative lack of exposure to companies that benefited from the emergence of global growth late in 2009 was detrimental to the Sub-fund’s return. These included Standard Chartered and SABMiller, both of whom performed impressively during this time. The Sub-fund’s performance was also held back to some degree by our underweight position in domestic banks, which included Royal Bank of Scotland and Lloyds Banking Group, as these shares recovered strongly early in 2010.

Over the year, we added to our position in BG Group, with the desire to keep some exposure to resources despite the economic headwinds. Unlike BP and Royal Dutch Shell, BG Group has strong production growth of 6%+ out until 2020 and, having underperformed the market in the second half of 2009, we were able to buy these shares on an attractive valuation.

We also purchased Wolseley at the end of 2009, an undervalued building merchant with leading market positions globally, which has strengthened its balance sheet over the last year.

Land Securities was exited after commercial property yields tightened through the final quarter of 2009 and, with the shares trading at a small premium to book (asset backing), we felt the shares were unlikely to make much further progress. We also sold Firstgroup, a bus and rail company in the UK and US which, whilst recovering strongly from a profit warning of twelve months ago, remains very geared and we felt that earnings estimates would continue to come under pressure.

# UK Equity Fund

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## Outlook

The outlook for economies is mixed, as the recovery phase has taken hold around the world and the valuation of equities, particularly in the UK, remains supportive of positive returns. The last twelve months has left many high quality companies looking relatively undervalued and we believe that the oversold Defensive sectors could be major beneficiaries of future sector rotation. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing, and we have high conviction in our holdings and their potential to deliver strong returns over the next few years.

# UK Equity Fund

## Top 10 Holdings

31 March 2010	% of Sub-fund	31 March 2009	% of Sub-fund
BP	7.34	Royal Dutch Shell (B)	7.94
HSBC Holdings	6.46	BP	7.39
Royal Dutch Shell (B)	5.86	Vodafone Group	6.50
GlaxoSmithKline	5.32	GlaxoSmithKline	6.41
Vodafone Group	5.29	AstraZeneca	4.62
British American Tobacco	3.74	HSBC Holdings	4.47
AstraZeneca	3.33	British American Tobacco	3.45
Anglo American	3.10	Rio Tinto	2.88
Rio Tinto	3.02	Tesco	2.80
BG Group	2.99	BG Group	2.54

## Sector Breakup

Sector	Portfolio %	Benchmark Index*	Difference %
Oil & Gas	17.55	17.99	(0.44)
Basic Materials	8.05	12.67	(4.62)
Industrials	9.27	7.14	2.13
Consumer Goods	15.90	11.29	4.61
Health Care	10.53	7.45	3.08
Consumer Services	8.93	9.88	(0.95)
Telecommunications	6.06	5.76	0.30
Utilities	4.13	3.33	0.80
Financials	13.81	22.93	(9.12)
Technology	2.18	1.56	0.62

\* Source: Style Research.

## Portfolio Turnover

	Year to 31 March 2010	Year to 31 March 2009
Total purchases for the year	£65,536,001	£11,450,163
Total sales for the year	£42,115,119	£4,348,905
Portfolio Turnover Rate	122.62%	142.03%

The Portfolio Turnover Rate (PTR) gives an indication of how much the Sub-fund's investments have changed during the year. As the Sub-fund pays for any charges involved with buying and selling investments, the higher the percentage, the more costs it has paid.



# UK Equity Fund

## Fund Performance

### Net asset values

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
<b>31 March 2008</b>			
A-Class Income shares	3,009,910	95.67	3,146,129
Z-Class Accumulation shares	240,575	481.81	49,931
<b>31 March 2009</b>			
A-Class Income shares	7,693,688	67.25	11,440,141
Z-Class Accumulation shares	176,414	353.32	49,931
<b>31 March 2010</b>			
A-Class Income shares	13,617,762	95.18	14,307,630
Z-Class Accumulation shares	32,709,470	517.71	6,318,075

### Share price range & net revenue

Year	Highest share price	Lowest share price	Net revenue
<b>A-Class Income shares</b>			
2008 <sup>(1)</sup>	106.45p	66.93p	0.5373p
2009	93.67p	64.85p	2.0573p
2010 <sup>(2)</sup>	96.77p	88.20p	0.8417p
<b>Z-Class Accumulation shares</b>			
2008 <sup>(1)</sup>	536.88p	344.45p	3.3442p
2009	503.14p	335.36p	16.6777p
2010 <sup>(2)</sup>	521.64p	474.52p	8.2250p

<sup>(1)</sup> From 25 February 2008.

<sup>(2)</sup> The above table shows highest and lowest share prices to 31 March 2010. This table also shows net revenue payable on 31 May 2010.

The value of investments and any income generated may go down as well as up and is not guaranteed. An investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of investments.



# UK Equity Long Term Recovery Fund

## Investment Objective and Policy

The investment objective of the Sub-fund is to achieve capital growth by 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.

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. The Manager adheres to the investment guidelines and in this way, monitors and controls the exposure to risk from any type of security, sector or issuer.

### Currency Risk

This Sub-fund is invested in overseas financial securities. The performance of the Sub-fund may therefore be affected by changes in exchange rates.

## Fund Facts

**Fund Inception** 17 July 2008

### Accounting Dates

Interim 30 September

Final 31 March

### Distribution Payment Dates

Interim 30 November

Final 31 May

## Distribution Details

### A-Class Income shares

A shortfall for the Sub-fund arose because expenses exceeded the revenue of the Sub-fund. This being the case there is no distribution payable on 31 May 2010.

### B-Class Income shares

The distribution payable on 31 May 2010 is 1.0488p net per share for income shares.

### Z-Class Accumulation shares

The distribution payable on 31 May 2010 is 4.5656p net per share for accumulation shares.

# UK Equity Long Term Recovery Fund

## Total Expense Ratios

	31 March 2010	31 March 2009
<b>A-Class Income shares</b>	1.88%	1.83%
<b>B-Class Income shares*</b>	1.14%	–
<b>Z-Class Accumulation shares</b>	0.15%	0.08%

The Total Expense Ratio is the ratio of the Sub-fund's operating costs (excluding overdraft interest) to the average net assets of the Sub-fund.

\*B-Class shares became available from 1 April 2009, therefore there are no prior period comparatives.

# UK Equity Long Term Recovery Fund

## Market Background

Following the traumatic market background of 2008, the last twelve months has seen a much more positive performance from world equity markets. Against a background of stability returning to the global financial system, and unprecedented levels of fiscal and monetary stimulus by governments around the globe, March 2009 represented the low point in the market downturn. Over the year, the FTSE All Share Index returned 52.3%, with positive returns over the four quarters. Lead indicators and investment related data began to tell a positive story – economies were moving out of recession; company profits, having bottomed-out, were recovering and, in some cases, even surprising on the upside.

Markets surged in the second and third quarters of 2009, as investors bought in to “bombed-out” financials and recovery stocks. Small and medium sized companies outperformed, reversing the pattern seen over the previous two years. Towards the end of the year, we saw a shift in investor appetite as focus moved towards global growth stocks and emerging markets, with investors seeking exposure to less leveraged economies that were not directly caught up in the credit crisis.

## Portfolio Review & Activity

The River and Mercantile UK Equity Long Term Recovery Fund achieved a return of 84.5% for the year to 31 March 2010, compared to the FTSE All Share Index which returned 52.3%.

The Sub-fund benefited from its significant exposure to recovery stocks and smaller companies, both of which made substantial gains in the six months following the stock market low point of March 2009. A number of the Sub-fund’s holdings, including Avis Europe, Galiform Furniture, Cookson Group and Pace Micro System all contributed to the strong performance over the year. Towards the end of the year, the Sub-fund’s overweight exposure to domestic banks also benefited performance, as these shares recovered strongly in the early part of 2010. However, lack of exposure to global growth stocks in the same period held the Sub-fund back slightly.

Over the year, we continued to look for undervalued growth investments, and this led us to participate in the Initial Public Offering of CPP. A dominant provider of credit card and identity protection in the UK, but growing internationally, they have grown revenue and profits well in excess of 10% per annum. We also added to our positions in Media stocks, such as Daily Mail and General Trust and ITV, as a return to advertising growth is leading to a dramatic improvement in the profitability of these businesses.

We sold out of Prudential, following strong performance and a full realisation of our original investment case. The sale was timely as it preceded their announcement regarding the acquisition of AIA, which is an attractive deal strategically, but at a full price. We also exited our holding in Delta when it announced it had received a bid, selling the shares at a premium to the value of the bid.

## Outlook

The outlook for economies is robust, as the recovery phase takes hold around the world and the valuation of equities, particularly in the UK, remains supportive of positive returns. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing. We believe these are strong factors and expect them to deliver equally strong returns in the future.

# UK Equity Long Term Recovery Fund

## Top 10 Holdings

31 March 2010	% of Sub-fund	31 March 2009	% of Sub-fund
Rio Tinto	3.65	GlaxoSmithKline	3.88
HSBC Holdings	3.44	AstraZeneca	3.74
Barclays	3.38	Vodafone Group	3.30
Lloyds Banking Group	2.98	HSBC Holdings	2.93
Anglo American	2.64	Rio Tinto	2.46
GlaxoSmithKline	2.34	Xstrata	1.95
Xstrata	2.17	Prudential	1.89
Royal Bank of Scotland	1.47	888 Holdings	1.82
Vodafone Group	1.43	D.R. Horton	1.76
Lonmin	1.36	Invensys	1.75

## Sector Breakup

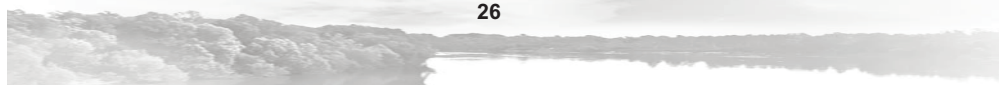
Sector	Portfolio %	Benchmark Index*	Difference %
Oil & Gas	3.55	17.99	(14.44)
Basic Materials	11.17	12.67	(1.50)
Industrials	13.06	7.14	5.92
Consumer Goods	5.44	11.29	(5.85)
Health Care	5.82	7.45	(1.63)
Consumer Services	15.49	9.88	5.61
Telecommunications	1.82	5.76	(3.94)
Utilities	1.78	3.33	(1.55)
Financials	33.40	22.93	10.47
Technology	8.54	1.56	6.98

\*Source: Style Research.

## Portfolio Turnover

	Year to 31 March 2010	Year to 31 March 2009
Total purchases for the year	£101,510,036	£109,529,515
Total sales for the year	£136,137,496	£22,909,802
Portfolio Turnover Rate	175.21%	83.43%

The Portfolio Turnover Rate (PTR) gives an indication of how much the Sub-fund's investments have changed during the year. As the Sub-fund pays for any charges involved with buying and selling investments, the higher the percentage, the more costs it has paid.



# UK Equity Long Term Recovery Fund

## Fund Performance

### Net asset values

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
<b>31 March 2009</b>			
A-Class Income shares	61,858,158	67.48	91,673,078
Z-Class Accumulation shares	78,858	345.90	22,798
<b>31 March 2010</b>			
A-Class Income shares	69,288,694	123.11	56,280,632
B-Class Income shares*	11,053,254	449.50	2,459,002
Z-Class Accumulation shares	272,631	644.44	42,305

\*B-Class Income shares became available from 1 April 2009, and as such there are no prior period comparatives.

### Share price range & net revenue

Year	Highest share price	Lowest share price	Net revenue
<b>A-Class Income shares</b>			
2008 <sup>(1)</sup>	113.97p	64.95p	0.3115p
2009	124.34p	59.53p	1.0984p
2010 <sup>(3)</sup>	124.84p	112.37p	–
<b>B-Class Income shares</b>			
2008	–	–	–
2009 <sup>(2)</sup>	454.54p	250.00p	2.9173p
2010 <sup>(3)</sup>	456.84p	410.79p	1.0488p
<b>Z-Class Accumulation shares</b>			
2008 <sup>(1)</sup>	581.00p	327.70p	3.3663p
2009	642.49p	301.93p	12.8871p
2010 <sup>(3)</sup>	653.40p	586.76p	4.5656p

<sup>(1)</sup> From 17 July 2008.

<sup>(2)</sup> From 1 April 2009.

<sup>(3)</sup> The above table shows highest and lowest share prices to 31 March 2010. This table also shows net revenue payable on 31 May 2010.

The value of investments and any income generated may go down as well as up and is not guaranteed. An investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of investments.



# UK Equity Income Fund

## Investment Objective and Policy

The investment objective of the Sub-fund is to generate a rising level of revenue combined with the potential for capital growth through investing in a portfolio which shall primarily consist of UK equities, however, it may also invest in other instruments such as government gilts, corporate fixed income securities and convertibles.

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. The Manager adheres to the investment guidelines and in this way, monitors and controls the exposure to risk from any type of security, sector or issuer.

## Fund Facts

**Fund Inception** 2 February 2009

### Accounting Dates

Interim 30 September  
Final 31 March

### Distribution Payment Dates

Interim 30 November  
Final 31 May

## Distribution Details

### A-Class Income shares

The distribution payable on 31 May 2010 is 2.8865p net per share for income shares.

### B-Class Income shares

The distribution payable on 31 May 2010 is 7.3311p net per share for income shares.

## Total Expense Ratios

	31 March 2010	31 March 2009
<b>A-Class Income shares</b>	1.64%	1.77%
<b>B-Class Income shares</b>	0.90%	1.02%

The Total Expense Ratio is the ratio of the Sub-fund's operating costs (excluding overdraft interest) to the average net assets of the Sub-fund.

# UK Equity Income Fund

## Market Background

Following the traumatic market background of 2008, the last twelve months has seen a much more positive performance from world equity markets. Against a background of stability returning to the global financial system and unprecedented levels of fiscal and monetary stimulus by governments around the globe, March 2009 represented the low point in the market downturn. Over the year, the FTSE All Share Index returned 52.3%, with positive returns over the four quarters. Lead indicators and investment related data began to tell a positive story – economies were moving out of recession; company profits, having bottomed-out, were recovering and, in some cases, even surprising on the upside.

Markets surged in the second and third quarters of 2009, as investors bought in to “bombed-out” financials and recovery stocks. Small and medium sized companies outperformed, reversing the pattern seen over the previous two years. Towards the end of the year, we saw a shift in investor appetite as focus moved towards global growth stocks and emerging markets, with investors seeking exposure to less leveraged economies that were not directly caught up in the credit crisis.

## Portfolio Review & Activity

The River and Mercantile UK Equity Income Fund achieved a first quartile return (within the UK Income sector) of 52.9% for the year to 31 March 2010, compared to the FTSE All Share Index which returned 52.3%. Stocks that contributed to performance over the year included McBride and Daily Mail. Detractors from performance included our underweight position in Standard Chartered and, our underweight in the Mining sector.

The valuation of a number of highly successful positions we held since launch such as McBride, Spirent, Homeserve and Daily Mail became stretched so we took profits and reinvested in some more defensive large cap Quality names, including Diageo, Imperial Tobacco and Scottish & Southern Energy. For the same reason within Food Producers we moved underweight Unilever and purchased market leading milk producer Robert Wiseman Dairies. The Sub-fund also participated in its first Initial Public Offer, of market leading credit card and identity protection provider CPP. This highly cash generative, well established, mid-cap growth company has material opportunities over the medium-term to increase shareholder value and was listed on an attractive valuation.

## Outlook

The outlook for economies is robust, as the recovery phase takes hold around the world and the valuation of equities, particularly in the UK, remains supportive of positive returns. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing, and we have high conviction in our holdings. The Sub-fund remains focused on achieving above-average income from UK equities and a Total Return ahead of the market with active risk control at a sector and size level.

# UK Equity Income Fund

## Top 10 Holdings

31 March 2010	% of Sub-fund	31 March 2009	% of Sub-fund
HSBC Holdings	5.94	BP	8.24
BP	5.69	Royal Dutch Shell (B)	7.35
Vodafone Group	5.68	Vodafone Group	7.11
Royal Dutch Shell (B)	5.48	GlaxoSmithKline	6.69
GlaxoSmithKline	5.00	HSBC Holdings	4.53
BHP Billiton	4.08	British American Tobacco	3.73
Barclays	3.88	Rio Tinto	2.75
British American Tobacco	3.46	AstraZeneca	2.72
AstraZeneca	3.30	Unilever	2.70
Diageo	2.84	BHP Billiton	2.16

## Sector Breakup

Sector	Portfolio %	Benchmark Index* %	Difference %
Oil & Gas	15.17	17.99	(2.82)
Basic Materials	10.05	12.67	(2.62)
Industrials	11.25	7.14	4.11
Consumer Goods	10.32	11.29	(0.97)
Health Care	8.30	7.45	0.85
Consumer Services	8.43	9.88	(1.45)
Telecommunications	7.49	5.76	1.73
Utilities	3.93	3.33	0.60
Financials	22.26	22.93	(0.67)
Technology	3.66	1.56	2.10

\*Source: Style Research.

## Portfolio Turnover

	1 April 2009 to 31 March 2010	2 February 2009 to 31 March 2009
Total purchases for the year	£15,263,254	£4,221,457
Total sales for the year	£7,674,675	£513,164
Portfolio Turnover Rate	183.99%	26.70%

The Portfolio Turnover Rate (PTR) gives an indication of how much the Sub-fund's investments have changed during the year. As the Sub-fund pays for any charges involved with buying and selling investments, the higher the percentage, the more costs it has paid.



# UK Equity Income Fund

## Fund Performance

### Net asset values

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
<b>31 March 2009</b>			
A-Class Income shares	36,804	94.28	39,035
B-Class Income shares	3,489,628	235.99	1,478,740
<b>31 March 2010</b>			
A-Class Income shares	158,915	138.91	114,405
B-Class Income shares	13,144,384	350.16	3,753,817

### Share price range & net revenue

Year	Highest share price	Lowest share price	Net revenue
<b>A-Class Income shares</b>			
2009 <sup>(1)</sup>	135.83p	88.25p	3.5688p
2010 <sup>(2)</sup>	144.17p	129.32p	2.8865p
<b>B-Class Income shares</b>			
2009 <sup>(1)</sup>	341.61p	220.78p	8.9193p
2010 <sup>(2)</sup>	363.55p	325.78p	7.3311p

<sup>(1)</sup> From 2 February 2009

<sup>(2)</sup> The above table shows highest and lowest share prices to 31 March 2010. This table also shows net revenue payable on 31 May 2010.

The value of investments and any income generated may go down as well as up and is not guaranteed. An investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of investments.

# Global Equity Fund

## Investment Objective and Policy

The investment objective of the Sub-fund is to achieve capital growth by investing in a portfolio of investments that has a balanced risk profile of global equities of established international companies which offer the prospect of long term capital growth.

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. The Manager adheres to the investment guidelines and in this way, monitors and controls the exposure to risk from any type of security, sector or issuer.

### Currency Risk

This Sub-fund is invested in overseas financial securities. The performance of the Sub-fund may therefore be affected by changes in exchange rates.

## Fund Facts

**Fund Inception** 14 October 2009

### Accounting Dates

Interim 30 September

Final 31 March

### Distribution Payment Dates

Interim 30 November

Final 31 May

## Distribution Details

### A-Class Income shares

The distribution payable on 31 May 2010 is 0.0759p net per share for income shares.

### B-Class Accumulation shares

The distribution payable on 31 May 2010 is 0.9756p net per share for accumulation shares.

### Z-Class Accumulation shares

The distribution payable on 31 May 2010 is 3.6291p net per share for accumulation shares.

# Global Equity Fund

## Total Expense Ratios

31 March 2010

<b>A-Class Income shares</b>	1.79%
<b>B-Class Accumulation shares</b>	1.04%
<b>Z-Class Accumulation shares</b>	0.29%

The Total Expense Ratio is the ratio of the Sub-fund's operating costs (excluding overdraft interest) to the average net assets of the Sub-fund.

The Sub-fund was launched on 14 October 2009, therefore there is no comparative TER.



# Global Equity Fund

## Market Background

Following the traumatic market background of 2008, the last twelve months has seen a much more positive performance from world equity markets. Against a background of stability returning to the global financial system and unprecedented levels of fiscal and monetary stimulus by governments around the globe, March 2009 represented the low point in the market downturn. Lead indicators and investment related data began to tell a positive story – economies were moving out of recession; company profits, having bottomed-out, were recovering and, in some cases, even surprising on the upside.

Markets surged in the second and third quarters of 2009, as investors bought in to “bombed-out” financials and recovery stocks. In response to increased liquidity and a higher risk appetite, investors recognised the potential of the emerging markets which, with far lower levels of government and consumer debt, were far less exposed to the effects of the credit crisis and, as a result, outperformed their developed counterparts. Concerns of monetary tightening in China and fiscal deficits in Europe caused a sharp pull-back in the early months of 2010, although markets resumed their advance towards the end of the period.

## Portfolio Review & Activity

Since its inception in October 2009, the River and Mercantile Global Equity Fund achieved a return of 10.7% to 31 March 2010, compared to the FTSE All World Index which returned 10.1% over the same period. Stocks which contributed to the Sub-fund’s outperformance included Millicom International, Diagnosticos da America and Career Education. Detractors from performance included Genzyme Corp and Pfizer.

A position in ConocoPhillips was initiated and funded by the sale of Total. Conoco is cheaper and is embarking on a debt-reduction programme involving asset sales. Brazilian MasterCard payment processor Redecard was introduced as its lowly valuation, high free cash flow and high dividend yield suggested investors were taking an unduly pessimistic view of the likely impact of increasing levels of competition on its profitability. This was funded by the sale of British American Tobacco, a defensive stock which had performed well. In the electronics sectors we introduced BestBuy and Sony – both will benefit from the introduction of 3D TVs, movies, DVDs and games.

## Outlook

For now, we remain positive on the prospects for the global economic recovery, but we expect to see greater evidence of the hangover from the debt boom, which has occurred in many Western economies, as well as the high degree of sensitivity of markets to the withdrawal of extreme fiscal and monetary stimulus. Many remain sceptical about the strength of the recovery, particularly in those over-indebted developed nations, and the problems emanating from Greece’s debt position lead us to continue to avoid similar indebted European countries. However, there are some attractively valued companies in the world which we believe will benefit from a demand recovery in the coming months and contribute to delivering good returns in the future.

# Global Equity Fund

## Top 10 Holdings

31 March 2010	% of Sub-fund
Pfizer	1.95
Altria Group	1.94
Cap Gemini	1.94
Canadian Natural Resources	1.77
Nestlé	1.72
Kasikornbank	1.67
Kinnevik	1.66
Rio Tinto	1.61
Anhanguera Educacional Participacoes	1.59
JPMorgan Chase & Co	1.59

## Sector Breakup

Sector	Portfolio %	Benchmark Index*	Difference %
Oil & Gas	11.09	10.43	0.66
Basic Materials	3.48	8.04	(4.56)
Industrials	10.42	11.67	(1.25)
Consumer Goods	13.04	11.53	1.51
Health Care	10.60	8.14	2.46
Consumer Services	14.21	8.80	5.41
Telecommunications	4.24	4.59	(0.35)
Utilities	0.92	4.16	(3.24)
Financials	20.93	22.52	(1.59)
Technology	8.81	10.13	(1.32)

\* Source: Style Research.

## Portfolio Turnover

	14 October 2009 to 31 March 2010
Total purchases for the period	£4,591,654
Total sales for the period	£1,559,735
Portfolio Turnover Rate	101.05%

The Portfolio Turnover Rate (PTR) gives an indication of how much the Sub-fund's investments have changed during the period. As the Sub-fund pays for any charges involved with buying and selling investments, the higher the percentage, the more costs it has paid.

The Sub-fund was launched on 14 October 2009, therefore there is no comparative PTR.

# Global Equity Fund

## Fund Performance

### Net asset values

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
<b>31 March 2010</b>			
A-Class Income shares	22,610	109.99	20,557
B-Class Accumulation shares	2,041,608	276.10	739,440
Z-Class Accumulation shares	1,376,212	554.09	248,375

### Share price range & net revenue

Year	Highest share price	Lowest share price	Net revenue
<b>A-Class Income shares</b>			
2009 <sup>(1)</sup>	102.71p	93.12p	0.0000p
2010 <sup>(2)</sup>	111.83p	97.36p	0.0759p
<b>B-Class Accumulation shares</b>			
2009 <sup>(1)</sup>	257.16p	232.88p	0.0000p
2010 <sup>(2)</sup>	280.49p	243.97p	0.9756p
<b>Z-Class Accumulation shares</b>			
2009 <sup>(1)</sup>	515.11p	465.88p	0.0000p
2010 <sup>(2)</sup>	562.82p	489.06p	3.6291p

<sup>(1)</sup> From 14 October 2009.

<sup>(2)</sup> The above table shows highest and lowest share prices to 31 March 2010. This table also shows net revenue payable on 31 May 2010.

The value of investments and any income generated may go down as well as up and is not guaranteed. An investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of investments.

# Global Opportunities Fund

## Investment Objective and Policy

The investment objective of the Sub-fund is to achieve capital growth by investing in a concentrated portfolio of global equities of companies which the Manager believes represent the most attractive opportunities to achieve above average returns. The Sub-fund will not be restricted by reference to a benchmark, sector constraints or company size.

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. The Manager adheres to the investment guidelines and in this way, monitors and controls the exposure to risk from any type of security, sector or issuer.

### Currency Risk

This Sub-fund is invested in overseas financial securities. The performance of the Sub-fund may therefore be affected by changes in exchange rates.

## Fund Facts

**Fund Inception** 8 October 2009

### Accounting Dates

Interim 30 September  
Final 31 March

### Distribution Payment Dates

Interim 30 November  
Final 31 May

## Distribution Details

### A-Class Income shares

A shortfall for the Sub-fund arose because expenses exceeded the revenue of the Sub-fund. This being the case there is no distribution payable on 31 May 2010.

### B-Class Accumulation shares

The distribution payable on 31 May 2010 is 0.3999p net per share for accumulation shares.

### Z-Class Accumulation shares

The distribution payable on 31 May 2010 is 3.2229p net per share for accumulation shares.

# Global Opportunities Fund

## Total Expense Ratios

31 March 2010

<b>A-Class Income shares</b>	2.00%
<b>B-Class Accumulation shares</b>	1.27%
<b>Z-Class Accumulation shares</b>	0.25%

The Total Expense Ratio is the ratio of the Sub-fund's operating costs (excluding overdraft interest) to the average net assets of the Sub-fund.

The Sub-fund was launched on 8 October 2009, therefore there is no comparative TER.



# Global Opportunities Fund

## Market Background

Following the traumatic market background of 2008, the last twelve months has seen a much more positive performance from world equity markets. Against a background of stability returning to the global financial system, and unprecedented levels of fiscal and monetary stimulus by governments around the globe, March 2009 represented the low point in the market downturn. Lead indicators and investment related data began to tell a positive story – economies were moving out of recession; company profits, having bottomed-out, were recovering and, in some cases, even surprising on the upside.

Markets surged in the second and third quarters of 2009, as investors bought in to “bombed-out” financials and recovery stocks. In response to increased liquidity and a higher risk appetite, investors recognised the potential of the emerging markets which, with far lower levels of government and consumer debt, were far less exposed to the effects of the credit crisis and, as a result, outperformed their developed counterparts. Concerns of monetary tightening in China and fiscal deficits in Europe caused a sharp pull-back in the early months of 2010, although markets resumed their advance towards the end of the period.

## Portfolio Review & Activity

Since its inception in October 2009, the River and Mercantile Global Opportunities Fund achieved a return of 14.7% to 31 March 2010, compared to the FTSE All World Index which returned 13.3% over the same period. Stocks which contributed to the Sub-fund's outperformance included Millicom International, Diagnosticos da America and Career Education. Detractors from performance included Genzyme and Pfizer Cellular.

A position in ConocoPhillips was initiated and funded by the sale of Total. Conoco is cheaper and is embarking on a debt-reduction programme involving asset sales. Brazilian MasterCard payment processor Redecard was introduced as its lowly valuation, high free cash flow and high dividend yield suggested investors were taking an unduly pessimistic view of the likely impact of increasing levels of competition on its profitability. This was funded by the sale of British American Tobacco, a defensive stock which had performed well. In the electronics sectors we introduced BestBuy and Sony – both will benefit from the introduction of 3D TVs, movies, DVDs and games.

## Outlook

For now, we remain positive on the prospects for the global economic recovery, but we expect to see greater evidence of the hangover from the debt boom, which has occurred in many Western economies, as well as the high degree of sensitivity of markets to the withdrawal of extreme fiscal and monetary stimulus. Many remain sceptical about the strength of the recovery, particularly in those over-indebted developed nations, and the problems emanating from Greece's debt position lead us to continue to avoid similarly indebted European countries. However, there are some attractively valued companies in the world which we believe will benefit from a demand recovery in the coming months and contribute to delivering good returns in the future.

# Global Opportunities Fund

## Top 10 Holdings

31 March 2010	% of Sub-fund
Cap Gemini	2.65
Ariba	2.51
Jardine Cycle & Carriage	2.29
Kasikornbank	2.25
Redecard	2.24
Kinnevik	2.21
Diagnosticos da America	2.18
Rio Tinto	2.16
Union Pacific	2.15
Fresenius	2.14

## Sector Breakup

Sector	Portfolio %	Benchmark Index*	Difference %
Oil & Gas	11.49	10.42	1.07
Basic Materials	3.12	8.04	(4.92)
Industrials	9.13	11.67	(2.54)
Consumer Goods	15.46	11.53	3.93
Health Care	9.98	8.14	1.84
Consumer Services	11.37	8.8	2.57
Telecommunications	5.39	4.59	0.80
Utilities	-	4.16	(4.16)
Financials	26.58	22.52	4.06
Technology	6.15	10.13	(3.98)

\* Source: Style Research.

## Portfolio Turnover

	8 October 2009 to 31 March 2010
Total purchases for the period	£37,376,106
Total sales for the period	£8,327,795
Portfolio Turnover Rate	103.99%

The Portfolio Turnover Rate (PTR) gives an indication of how much the Sub-fund's investments have changed during the period. As the Sub-fund pays for any charges involved with buying and selling investments, the higher the percentage, the more costs it has paid.

The Sub-fund was launched on 8 October 2009, therefore there is no comparative PTR.

# Global Opportunities Fund

## Fund Performance

### Net asset values

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
<b>31 March 2010</b>			
A-Class Income shares	516,958	113.74	454,517
B-Class Accumulation shares	7,076,735	285.35	2,480,005
Z-Class Accumulation shares	24,801,876	573.39	4,325,513

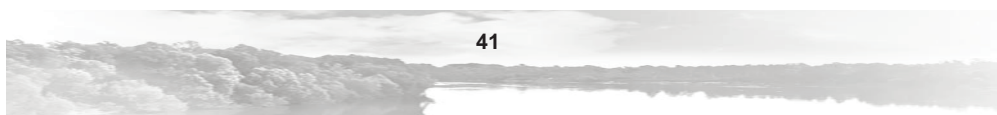
### Share price range & net revenue

Year	Highest share price	Lowest share price	Net revenue
<b>A-Class Income shares</b>			
2009 <sup>(1)</sup>	104.98p	94.52p	–
2010 <sup>(2)</sup>	115.70p	100.66p	0.0000p
<b>B-Class Accumulation shares</b>			
2009 <sup>(2)</sup>	262.88p	236.42p	–
2010 <sup>(2)</sup>	290.22p	252.25p	0.3999p
<b>Z-Class Accumulation shares</b>			
2009 <sup>(1)</sup>	526.92p	473.18p	–
2010 <sup>(2)</sup>	583.10p	506.18p	3.2229p

<sup>(1)</sup> From 8 October 2009.

<sup>(2)</sup> The above table shows highest and lowest share prices to 31 March 2010. This table also shows net revenue payable on 31 May 2010.

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## Other Information

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The River and Mercantile Global High Income Sub-fund was launched on 27 April 2010 with A-class shares and B-class shares available.

Subscription and redemption applications for shares issued by the Sub-funds should now be received by 11 a.m. to ensure inclusion in the following 12 noon valuation point.

With effect from 31 March 2010 the ACD at its discretion may apply the Tax Elected Fund (TEF) rules as reflected in the Principal Prospectus.

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