

RIVER AND MERCANTILE
ASSET MANAGEMENT

River and Mercantile Funds ICVC
Short Report for the Year Ended
31 March 2009

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Further information

This final Short Report has been prepared in accordance with the Financial services Open-Ended Investment Companies Regulations 2001. The Authorised Corporate Director's Long Form Financial Statements, which are audited, and the Prospectus, which contains a written statement of Terms and Conditions of the Company, can be obtained free of charge using the contact details shown at the back cover of the booklet.

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. Please contact River and Mercantile Asset Management LLP directly for further details of any information contained in this Short Report or refer to our website at www.riverandmercantile.com

River View

Introduction

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

At 4pm on 17 February 2008, Northern Rock became the first British bank to be nationalised since the 1970s. Prevented from accessing the precious funding from financial markets, losing customers at a prodigious rate as a result of panic laden reporting in national and local press, The Chancellor advised a confused and bemused press conference that the Newcastle-based bank would be taken into “a temporary period of public ownership”. The move left shareholders stunned and, though the Treasury was unaware at the time, Northern Rock would prove the first of many to traipse through the door of 11 Downing Street with a begging bowl during the course of 2008. To make sure Britain avoided its own, Icelandic-style banking crash, public money found its way into a host of other banks; HBOS, Lloyds TSB, Royal Bank of Scotland Group and a variety of other lenders. In the end, billions of pounds worth of guarantees have been given; new loans have been underwritten and the British Government has taken stakes in many of the major banks. These dramatic moves, which have been followed across Europe and in the US have left the world financial markets in a precarious position and we still await evidence that this unprecedented level of intervention will have had the desired effect. What is clear is that the extreme difficulties experienced in financial markets have now infected the wider economies across the world and this financial storm has now created a recessionary environment in all the world’s major markets, and the outlook is increasingly difficult and ambiguous. In spite of this we have begun to seek examples and incidence of “Green Shoots” that will lead to some form of recovery; nevertheless it would be prudent to expect that the year ahead of us all will continue to prove difficult.

Current Position

It is against this background that I am delighted to report that the ICVC has had a very positive year. A year during which we have delivered some very credible growth, both in terms of the underlying assets, and in the number of sub-funds that we manage. The UK Division went live in November 2006 with the launch of its first two funds and since then this has grown to six with the launch of a number of additional strategies including in the last financial year the UK Equity Long Term Recovery managed by Hugh Sergeant and the UK Equity Income Fund managed by Richard Staveley. At the time of writing the business manages in excess of £800 million of which nearly £200 million is in the River and Mercantile Funds ICVC. This is an increase of 55% over the figures we reported this time last year in a period when the market has fallen by 30%, enabling the business to break even in August 2008.

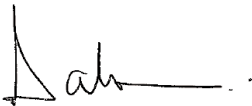
River View continued

This asset growth is in line with our original expectations albeit in the face of difficult market conditions. The mix between Retail and Institutional assets is broadly in line with our aspirations at this stage in our development. The retail business had positive net sales in every month during 2008 and the first quarter 2009. The pipeline for new business for both the retail and the institutional businesses are very healthy and we look forward with confidence to growing the UK business through to our stated capacity limits over the coming years.

Future Plans

Our original business plan that we developed in 2006 was explicit in our ambitions for the continued development of the investment expertise at R&M and we are delighted to report that we have recruited Alex Stanic from Newton Investment management to develop our Global Equities expertise. He will join our business in June 2009 and we are in the process of ensuring that the business is fully prepared for his arrival and the development of the Global Equity Division. We anticipate increasing the number of the ICVC Sub-funds with the launch of the Global Equity Fund and the Global Equity Unconstrained Fund in October 2009. We will be in touch in due course as our plans for these launches are more fully advanced.

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.



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 the focused 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 2009 is 0.7913p net per share for income shares.

B-Class

The distribution payable on 31 May 2009 is 3.7320p net per share for accumulation shares.

Z-Class

The distribution payable on 31 May 2009 is 6.6720p net per share for accumulation shares.

Total Expense Ratio

	31 March 2009	31 March 2008
A-Class	1.60%	1.83%
B-Class*	0.93%	—
Z-Class	0.13%	0.21%

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 launched on 21 November 2008, therefore there is no prior period TER.

UK Equity High Alpha Fund

Market Background

The last twelve months has been a torrid time for equity markets around the world. In the UK, the FTSE All-Share Index returned -29.3% over a year that saw significant volatility. The well-publicised problems facing the banking sector were one of the notable downward forces on the stock market, compounded by the rapid decline in economic activity in the UK. As so much economic activity ground to a halt, and inventory levels were run down, the prices of resources and materials fell sharply.

Worries about controlling inflation very quickly turned into fear of deflation; reviving economic growth became the priority for governments across the globe. Interest rates in many countries were cut: in the UK the Official Bank Rate was reduced in rapid stages from 5.0% in October to a record low of 0.5% in March. Western governments announced a series of sizeable rescue plans for banks and financial institutions while around the world numerous large scale programmes designed to stimulate economic activity were approved. In the UK and the US, the extraordinary step of quantitative easing (effectively the printing of money) was put into operation. Towards the end of the year, there were early signs of an upturn in sentiment, with the UK equity market delivering a positive return of over 5% for the final two days of March.

Portfolio Review & Activity

The Sub-fund returned -32.8% over the twelve months to 31 March 2009. Relative performance was boosted by the lack of exposure to mining giant Rio Tinto, together with holdings in GlaxoSmithKline, Kingfisher and engineering group Delta. Overall, the biggest negative factor behind relative performance was the Sub-fund's underweight stance in the resources sector, whilst selective holdings amongst smaller companies were positive as the Sub-fund outperformed the Index towards the end of the year.

As valuations on a number of good quality companies continued to become more attractive, we continued to add a number of recovery stocks to the portfolio, including Wetherspoon (J.D.) and Marks & Spencer Group. Some of these purchases were funded from selling positions in Premier Farnell and BSKyB which had served the Sub-fund well. Having stayed underweight in the major mining shares for some time, we recently purchased Rio Tinto and Xstrata, taking advantage of significant share price falls.

Outlook

Hopefully we have now come through the worst, through the depths of the bear market and through a period when the valuation of companies appeared to be an irrelevance. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing (PVT); these are strong factors, and we expect them to deliver strong absolute and relative returns over the next few years.

UK Equity High Alpha Fund

Top 10 Holdings

31 March 2009	% of Sub-fund	31 March 2008	% of Sub-fund
BP	7.54	BP	5.57
Vodafone Group	6.07	Vodafone Group	5.57
GlaxoSmithKline	5.93	GlaxoSmithKline	4.81
Royal Dutch Shell (B)	5.75	HSBC Holdings	3.77
HSBC Holdings	4.07	Royal Dutch Shell (B)	3.27
AstraZeneca	3.43	Anglo American	3.23
Rio Tinto	2.40	Royal Bank of Scotland Group	2.54
Unilever	2.10	Prudential	2.21
Xstrata	1.95	HBOS	2.06
Anglo American	1.90	Unilever	2.05

Sector Breakup

Sector	Portfolio %	Benchmark Index*	Difference %
Oil & Gas	13.53	21.58	(8.05)
Basic Materials	7.53	8.74	(1.21)
Industrials	12.57	6.77	5.80
Consumer Goods	3.97	12.13	(8.16)
Health Care	10.40	9.32	1.08
Consumer Services	18.40	10.38	8.02
Telecommunications	7.44	6.87	(0.57)
Utilities	0.40	4.26	(3.86)
Financials	18.85	18.68	0.17
Technology	4.77	1.26	3.51

*Source: Style Research.

Portfolio Turnover

**1 April 2008 to
31 March 2009**

**28 November 2006 to
31 March 2008**

Total purchases for the year

£19,986,562

£35,083,329

Total sales for the year

£16,144,730

£11,668,420

Portfolio Turnover Rate

141.74%

304.44%

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 value of Sub-fund £	Net asset value per share P	Shares in issue
31 March 2008			
A-Class – Income shares	3,257,788	88.07	3,699,056
Z-Class – Accumulation shares	19,389,971	457.66	4,236,746
31 March 2009			
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-Class accumulation shares were available from 21 November 2008, therefore there are no prior year comparatives.

Year	Highest share price	Lowest share price	Net revenue
A-Class Income shares			
2006 ⁽¹⁾	103.54p	100.00p	–
2007	115.30p	96.63p	0.9123p
2008	99.17p	55.48p	0.9146p
2009 ⁽³⁾	64.98p	50.06p	0.7913p
B-Class Accumulation shares			
2008 ⁽²⁾	314.78p	226.97p	–
2009 ⁽³⁾	266.40p	205.46p	3.7320p
Z-Class Accumulation shares			
2006 ⁽¹⁾	533.03p	500.00p	–
2007	580.36p	495.08p	11.0588p
2008	508.39p	295.35p	8.2189p
2009 ⁽³⁾	347.05p	267.99p	6.6720p

⁽¹⁾From 28 November 2006.

⁽²⁾From 21 November 2008.

⁽³⁾The above table shows highest and lowest share prices to 31 March 2009. This table also shows net revenue to 31 May 2009.

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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

The distribution payable on 31 May 2009 is 0.3385p net per share for income shares.

Z-Class

The distribution payable on 31 May 2009 is 4.2140p net per share for accumulation shares.

Total Expense Ratio

	31 March 2009	31 March 2008
A-Class	1.61%	1.57%
Z-Class	0.09%	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.

UK Equity Smaller Companies Fund

Market Background

The last twelve months has been a torrid time for equity markets around the world. In the UK, the FTSE All-Share Index returned -29.3% over a year that saw significant volatility, whilst the Hoare Govett Smaller Companies Index returned -34.8%. The well-publicised problems facing the banking sector were one of the notable downward forces on the stock market, compounded by the rapid decline in economic activity in the UK. As so much economic activity ground to a halt, and inventory levels were run down, the prices of resources and materials fell sharply.

Worries about controlling inflation very quickly turned into fear of deflation; reviving economic growth became the priority for governments across the globe. Interest rates in many countries were cut: in the UK the Official Bank Rate was reduced in rapid stages from 5.0% in October to a record low of 0.5% in March. Western governments announced a series of sizeable rescue plans for banks and financial institutions while around the world numerous large scale programmes designed to stimulate economic activity were approved. In the UK and the US, the extraordinary step of quantitative easing (effectively the printing of money) was put into operation. Towards the end of the year, there were early signs of an upturn in sentiment, with the UK equity market delivering a positive return of over 5% for the final two days of March.

Portfolio Review & Activity

The portfolio outperformed the Index by 2.5% for the twelve months to 31 March 2009, returning -32.3% compared to the Hoare Govett Smaller Companies Index return of -34.8% and by 12.3% against the FTSE Smaller Companies return of -44.6%. Stocks that contributed to the overall outperformance included our overweight positions in Pace, Celsis International and Babcock International Group, along with underweight positions in SIG and Cattles. Detracting from performance were our overweights in Scott Wilson Group and E2V Technologies, and underweight positions in Enodis and Hiscox.

Portfolio activity over the year has been focused on buying new positions and adding further to current positions in high PVT scoring stocks, whilst trying to exit quickly out of those shares whose PVT scores are falling. We have added strong businesses including Brewin Dolphin Holdings and the online gaming company 888 Holdings. We have been exiting some defensive holdings which have served the Sub-fund well over the past two years such as Greggs and Dignity whose relative value is stretched now against many other parts of the market. We have significantly reduced our exposure to the late cycle aerospace sector selling Senior Engineering and Hampson Industries.

Outlook

Hopefully we have now come through the worst, through the depths of the bear market and through a year when the valuation of companies appeared to be an irrelevance. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing; these are strong factors, and we expect them to deliver strong absolute and relative returns over the next few years.



UK Equity Smaller Companies Fund

Top 10 Holdings

31 March 2009	% of Sub-fund	31 March 2008	% of Sub-fund
Babcock International Group	3.37	Babcock International Group	3.65
Pace	2.91	Dignity	2.25
Celsis International	2.65	Lamprell	2.23
McBride	2.43	Chaucer Holdings	2.00
Mouchel Group	2.32	Greggs	1.98
Hardy Underwriting Bermuda	2.27	Chemring Group	1.96
Chemring Group	2.21	Dechra Pharmaceuticals	1.95
Kier Group	2.07	Interserve	1.93
Connaught	2.01	Ultra Electronics Holdings	1.89
Diploma	1.99	Scott Wilson Group	1.88

Sector Breakup

Sector	Portfolio %	Benchmark Index*	Difference %
Oil & Gas	1.67	7.88	(6.21)
Basic Materials	3.02	6.13	(3.11)
Industrials	38.24	28.58	9.66
Consumer Goods	10.11	8.55	1.56
Health Care	4.88	3.72	1.16
Consumer Services	17.03	20.73	(3.70)
Telecommunications	2.86	0.94	1.92
Utilities	–	0.08	(0.08)
Financials	11.38	16.74	(5.36)
Technology	8.62	6.64	1.98

*Source: Style Research.

Portfolio Turnover

	1 April 2008 to 31 March 2009	30 November 2006 to 31 March 2008
Total purchases for the year	£27,850,559	£108,665,435
Total sales for the year	£23,398,213	£66,633,620
Portfolio Turnover Rate	96.67%	245.98%

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 Smaller Companies Fund

Fund Performance

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
31 March 2008			
A-Class – Income shares	36,319,512	88.53	41,027,252
Z-Class – Accumulation shares	847,240	454.31	186,491

31 March 2009			
A-Class – Income shares	25,068,706	57.92	43,281,538
Z-Class – Accumulation shares	514,578	306.16	168,073

Year	Highest share price	Lowest share price	Net revenue
A-Class Income shares			
2006 ⁽¹⁾	106.69p	99.38p	–
2007	113.97p	92.97p	0.4425p
2008	96.48p	59.40p	0.2579p
2009 ⁽²⁾	65.59p	57.52p	0.3385p
Z-Class Accumulation shares			
2006 ⁽¹⁾	526.76p	496.97p	–
2007	573.95p	476.83p	8.5676p
2008	492.05p	311.33p	4.7589p
2009 ⁽²⁾	344.24p	302.69p	4.2140p

⁽¹⁾From 28 November 2006.

⁽²⁾The above table shows highest and lowest share prices to 31 March 2009. This table also shows net revenue to 31 May 2009.

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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

The distribution payable on 31 May 2009 is 0.5737p net per share for income shares.

Z-Class

The distribution payable on 31 May 2009 is 5.9553p net per share for accumulation shares.

Total Expense Ratio

	31 March 2009	31 March 2008
A-Class	1.83%	1.83%
Z-Class	0.09%	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

The last twelve months has been a torrid time for equity markets around the world. In the UK, the FTSE All-Share Index returned -29.3% over a year that saw significant volatility. The well-publicised problems facing the banking sector were one of the notable downward forces on the stock market, compounded by the rapid decline in economic activity in the UK. As so much economic activity ground to a halt, and inventory levels were run down, the prices of resources and materials fell sharply.

Worries about controlling inflation very quickly turned into fear of deflation; reviving economic growth became the priority for governments across the globe. Interest rates in many countries were cut: in the UK the Official Bank Rate was reduced in rapid stages from 5.0% in October to a record low of 0.5% in March. Western governments announced a series of sizeable rescue plans for banks and financial institutions while around the world numerous large scale programmes designed to stimulate economic activity were approved. In the UK and the US, the extraordinary step of quantitative easing (effectively the printing of money) was put into operation. Towards the end of the year, there were early signs of an upturn in sentiment, with the UK equity market delivering a positive return of over 5% for the final two days of March.

Portfolio Review & Activity

The portfolio returned -35.2% for the twelve months to 31 March 2009 in what has proved a very testing time for equity investing. The Sub-fund benefited from its general underweight in Financials, however the small holding in Lloyds Banking Group negated a proportion of the sectors positive contribution. Our positions in Cable & Wireless, Kingfisher and WM Morrison's produced positive returns for much of the year, as did our underweight to Rio Tinto and Anglo American. As well as our position in Lloyds Banking Group, holdings in Innovation Group, Salamander Energy and FirstGroup detracted from the Sub-fund's performance, as did our zero holding in Royal Dutch Shell.

Over the latter part of the year, portfolio activity was somewhat more biased towards buying new positions, a combination of high scoring quality stocks, and increasingly recovery stocks. We added to our position in Rio Tinto, and new additions to the Sub-fund included Pace Micro Technology and Close Brothers Group. As the market started its rise late in the first quarter of 2009 as investors sought out value and recovery positions, defensive stocks became the unwanted and after positive contributions for some time, we reduced our holding in British American Tobacco. After holding the shares for some time we elected to sell WM Morrisons on valuation grounds as the market had high expectations for its future progress and the shares were being valued at a significant premium to both the sector and the market.

Outlook

Hopefully we have now come through the worst, through the depths of the bear market and through a year when the valuation of companies appeared to be an irrelevance. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing; these are strong factors, and we expect them to deliver strong absolute and relative returns over the next few years.

UK Equity Unconstrained Fund

Top 10 Holdings

31 March 2009	% of Sub-fund	31 March 2008	% of Sub-fund
GlaxoSmithKline	5.96	British American Tobacco	5.58
BP	5.83	BAE Systems	4.49
AstraZeneca	5.21	Unilever	4.41
Vodafone Group	4.63	BP	3.83
BAE Systems	4.37	Babcock International Group	3.77
Babcock International Group	4.13	Reed Elsevier	3.50
Reed Elsevier	3.79	Sibir Energy	3.47
Cable & Wireless	3.57	Xstrata	3.26
BSkyB	3.54	Vodafone Group	3.16
Rio Tinto	3.15	Wood Group (John)	3.03

Sector Breakup

Sector	Portfolio %	Benchmark Index *	Difference %
	%	%	%
Oil & Gas	6.15	21.58	(15.43)
Basic Materials	4.76	8.74	(3.98)
Industrials	22.71	6.77	15.94
Consumer Goods	9.73	12.13	(2.40)
Health Care	11.04	9.32	1.72
Consumer Services	14.57	10.38	4.19
Telecommunications	8.20	6.87	1.33
Utilities	2.00	4.26	(2.26)
Financials	15.46	18.68	(3.22)
Technology	2.46	1.26	1.20

*Source: Style Research.

Portfolio Turnover

**1 April 2008 to
31 March 2009**

**22 March 2007 to
31 March 2008**

Total purchases for the year

£140,237,821

£54,727,087

Total sales for the year

£64,371,511

£32,026,530

Portfolio Turnover Rate

151.97%

251.67%

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 value of Sub-fund £	Net asset value per share P	Shares in issue
31 March 2008			
A-Class – Income shares	22,134,239	92.84	23,841,402
Z-Class – Accumulation shares	370,940	477.07	77,753
31 March 2009			
A-Class – Income shares	56,169,026	57.71	97,328,653
Z-Class – Accumulation shares	4,085,252	307.40	1,328,948

Year	Highest share price	Lowest share price	Net revenue
A-Class Income shares			
2007 ⁽¹⁾	105.33p	92.06p	0.5040p
2008	102.09p	57.76p	0.4905p
2009 ⁽²⁾	71.67p	56.45p	0.5737p
Z-Class Accumulation shares			
2007 ⁽¹⁾	534.95p	463.48p	7.0646p
2008	525.92p	302.40p	6.7145p
2009 ⁽²⁾	376.44p	297.39p	5.9553p

⁽¹⁾From 22 March 2007.

⁽²⁾The above table shows highest and lowest share prices to 31 March 2009. This table also shows net revenue to 31 May 2009.

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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 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

The distribution payable on 31 May 2009 is 1.0061p net per share for income shares.

Z-Class

The distribution payable on 31 May 2009 is 8.0186p net per share for accumulation shares.

Total Expense Ratio

	31 March 2009	31 March 2008
A-Class	1.75%	1.67%
Z-Class	0.26%	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

Portfolio Review

The last twelve months has been a torrid time for equity markets around the world. In the UK, the FTSE All-Share Index returned -29.3% over a year that saw significant volatility. The well-publicised problems facing the banking sector were one of the notable downward forces on the stock market, compounded by the rapid decline in economic activity in the UK. As so much economic activity ground to a halt, and inventory levels were run down, the prices of resources and materials fell sharply.

Worries about controlling inflation very quickly turned into fear of deflation; reviving economic growth became the priority for governments across the globe. Interest rates in many countries were cut: in the UK the Official Bank Rate was reduced in rapid stages from 5.0% in October to a record low of 0.5% in March. Western governments announced a series of sizeable rescue plans for banks and financial institutions while around the world numerous large scale programmes designed to stimulate economic activity were approved. In the UK and the US, the extraordinary step of quantitative easing (effectively the printing of money) was put into operation. Towards the end of the year, there were early signs of an upturn in sentiment, with the UK equity market delivering a positive return of over 5% for the final two days of March.

Portfolio Review & Activity

The River and Mercantile UK Equity Fund returned -25.9% for the year to 31 of March 2009 compared to the FTSE All-Share Index -29.3%. The Sub-fund benefited from its general underweight in Financials, however the small holding in Lloyds Banking Group negated a proportion of the sectors positive contribution. Our underweight to Rio Tinto was beneficial to the Sub-funds outperformance, as was our overweight positions in Amlin, Hiscox and British Energy.

Activity last year was somewhat more biased towards buying new positions, a combination of high scoring quality stocks, and increasingly recovery stocks. Purchases during the last quarter included travel and tour operator Thomas Cook, financial company Close Brothers Group and Persimmon the UK housebuilder. After holding the shares since launch, we sold out of WM Morrisons of whom the market had gained high expectations for its future progress and the shares were being valued at a significant premium to both the sector and the market. Following a weakening PVT score and poor fundamentals at the subsequent review, we reduced our position in the utility Centrica, and recycled the proceeds into stronger investment ideas.

Outlook

Hopefully we have now come through the worst, through the depths of the bear market and through a period when the valuation of companies appeared to be an irrelevance. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing; these are strong factors, and we expect them to deliver strong absolute and relative returns over the next few years.

UK Equity Fund

Top 10 Holdings

31 March 2009	% of Sub-fund	31 March 2008	% of Sub-fund
Royal Dutch Shell (B)	7.94	Vodafone Group	5.66
BP	7.39	BP	5.21
Vodafone Group	6.50	Royal Dutch Shell (B)	5.13
GlaxoSmithKline	6.41	HSBC Holdings	4.41
AstraZeneca	4.62	GlaxoSmithKline	4.10
HSBC Holdings	4.47	British American Tobacco	4.01
British American Tobacco	3.45	Tesco	2.89
Rio Tinto	2.88	Imperial Tobacco	2.76
Tesco	2.80	Unilever	2.65
BG Group	2.54	Anglo American	2.54

Sector Breakup

Sector	Portfolio %	Benchmark Index* %	Difference %
Oil & Gas	17.55	21.58	(4.03)
Basic Materials	7.51	8.74	(1.23)
Industrials	10.33	6.77	3.56
Consumer Goods	9.92	12.13	(2.21)
Health Care	12.02	9.32	2.70
Consumer Services	12.58	10.38	2.20
Telecommunications	7.77	6.87	0.90
Utilities	2.30	4.26	(1.96)
Financials	17.01	18.68	(1.67)
Technology	0.61	1.26	(0.65)

*Source: Style Research.

Portfolio Turnover

	1 April 2008 to 31 March 2009	25 February 2008 to 31 March 2008
Total purchases for the year	£11,450,163	£3,373,181
Total sales for the year	£4,348,905	£155,401
Portfolio Turnover Rate	142.03%	4.08%

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 value of Sub-fund £	Net asset value per share P	Shares in issue
31 March 2008			
A-Class – Income shares	3,009,910	95.67	3,146,129
Z-Class – Accumulation shares	240,575	481.81	49,931

31 March 2009			
A-Class – Income shares	7,693,688	67.25	11,440,141
Z-Class – Accumulation shares	176,414	353.32	49,931

Year	Highest share price	Lowest share price	Net revenue
A-Class Income shares			
2008 ⁽¹⁾	536.88p	344.45p	0.5373p
2009 ⁽²⁾	424.94p	335.36p	1.0061p
Z-Class Accumulation shares			
2008 ⁽¹⁾	106.45p	66.93p	3.3442p
2009 ⁽²⁾	82.38p	64.85p	8.0186p

⁽¹⁾From 25 February 2008.

⁽²⁾The above table shows highest and lowest share prices to 31 March 2009. This table also shows net revenue to 31 May 2009.

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

The distribution payable on 31 May 2009 is 0.6507p net per share for income shares.

Z-Class

The distribution payable on 31 May 2009 is 6.3466p net per share for accumulation shares.

Total Expense Ratio

31 March 2009

A-Class 1.83%
Z-Class 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.

The Sub-fund was launched on 17 July 2008, therefore there is no comparative TER.

UK Equity Long Term Recovery Fund

Portfolio Review

The last twelve months has been a torrid time for equity markets around the world. In the UK, the FTSE All-Share Index returned -29.3% over a period that saw significant volatility. The well-publicised problems facing the banking sector were one of the notable downward forces on the stock market, compounded by the rapid decline in economic activity in the UK. As so much economic activity ground to a halt, and inventory levels were run down, the prices of resources and materials fell sharply.

Worries about controlling inflation very quickly turned into fear of deflation; reviving economic growth became the priority for governments across the globe. Interest rates in many countries were cut: in the UK the Official Bank Rate was reduced in rapid stages from 5.0% in October to a record low of 0.5% in March. Western governments announced a series of sizeable rescue plans for banks and financial institutions while around the world numerous large scale programmes designed to stimulate economic activity were approved. In the UK and the US, the extraordinary step of quantitative easing (effectively the printing of money) was put into operation. Towards the end of the period, there were early signs of an upturn in sentiment, with the UK equity market delivering a positive return of over 5% for the final two days of March.

Portfolio Review & Activity

The River and Mercantile UK Equity Long Term Recovery Fund returned -29.76% since its launch on 17 of July 2008. It was a difficult period initially for launching a recovery strategy, with markets falling sharply in September and October and further significant falls in January and February this year as risk assets continued to suffer a flight from capital towards low risk counters. Fortunately for this strategy and equity investors in general, by March 2009 we saw an improvement in forward looking data supporting an apparently more robust bottoming-out process than has been witnessed in previous rallies. The shape of the yield curve, the low levels of risk appetite and the extent of the value spread all point to us being at the bottom of the stock market cycle, ready to embark on the recovery stage.

Our confidence that we are at, or close to, the bottom of the stock market cycle increased during the last quarter, and our transactions reflected this adding to our recovery stocks with asset backing, Real Estate in particular and increasing the number of positions from 94 to 100 as strong ideas are plentiful in this type of environment. Purchases included adding to high conviction positions including Marks and Spencer Group, Rio Tinto and Xstrata, and taking up new positions in Rightmove and Henderson Group.

BSkyB has been a strong performer since we purchased it last year. As a result the Valuation score has fallen quite significantly, and with little further upside relative to other new ideas we decided to sell the position.

Outlook

Hopefully we have now come through the worst, through the depths of the bear market and through a period when the valuation of companies appeared to be an irrelevance. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing; these are strong factors, and we expect them to deliver strong absolute and relative returns over the next few years.

UK Equity Long Term Recovery Fund

Top 10 Holdings

31 March 2009	% of Sub-fund
GlaxoSmithKline	3.88
AstraZeneca	3.74
Vodafone Group	3.30
HSBC Holdings	2.93
Rio Tinto	2.46
Xstrata	1.95
Prudential	1.89
888 Holdings	1.82
D.R. Horton	1.76
Invensys	1.75

Sector Breakup

Sector	Portfolio %	Benchmark Index* %	Difference %
Oil & Gas	–	21.58	(21.58)
Basic Materials	9.13	8.74	0.39
Industrials	16.01	6.77	9.24
Consumer Goods	4.97	12.13	(7.10)
Health Care	8.39	9.32	(0.93)
Consumer Services	25.56	10.38	15.18
Telecommunications	5.02	6.87	(1.85)
Utilities	–	4.26	(4.26)
Financials	20.14	18.68	1.46
Technology	10.06	1.26	8.80

*Source: Style Research.

Portfolio Turnover

17 July 2008 to 31 March 2009

Total purchases for the period	£109,529,515
Total sales for the period	£22,909,802
Portfolio Turnover Rate	83.43%

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 17 July 2008, therefore there is no comparative PTR.

UK Equity Long Term Recovery Fund

Fund Performance

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
31 March 2009			
A-Class – Income shares	61,858,158	67.48	91,673,078
Z-Class – Accumulation shares	78,858	345.90	22,798

Year	Highest share price	Lowest share price	Net revenue
A-Class Income shares			
2008 ⁽¹⁾	113.97p	64.95p	0.3115p
2009 ⁽²⁾	78.66p	59.53p	0.6507p
Z-Class Accumulation shares			
2008 ⁽¹⁾	581.00p	327.70p	3.3663p
2009 ⁽²⁾	397.81p	301.93p	6.3466p

⁽¹⁾From 17 July 2008.

⁽²⁾The above table shows highest and lowest share prices to 31 March 2009. This table also shows net revenue to 31 May 2009.

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UK Equity Income Fund

Investment Objective and Policy

The investment objective of the Sub-fund is to generate a rising level of income 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

The distribution payable on 31 May 2009 is 1.0688p net per share for income shares.

B-Class

The distribution payable on 31 May 2009 is 2.6700p net per share for income shares.

Total Expense Ratio

31 March 2009

A-Class 1.77%
B-Class 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.

The Sub-fund was launched on 2 February 2009, therefore there is no comparative TER.

UK Equity Income Fund

Portfolio Review

The last twelve months has been a torrid time for equity markets around the world. In the UK, the FTSE All-Share Index returned -29.3% over a period that saw significant volatility. The well-publicised problems facing the banking sector were one of the notable downward forces on the stock market, compounded by the rapid decline in economic activity in the UK. As so much economic activity ground to a halt, and inventory levels were run down, the prices of resources and materials fell sharply.

Worries about controlling inflation very quickly turned into fear of deflation; reviving economic growth became the priority for governments across the globe. Interest rates in many countries were cut: in the UK the Official Bank Rate was reduced in rapid stages from 5.0% in October to a record low of 0.5% in March. Western governments announced a series of sizeable rescue plans for banks and financial institutions while around the world numerous large scale programmes designed to stimulate economic activity were approved. In the UK and the US, the extraordinary step of quantitative easing (effectively the printing of money) was put into operation. Towards the end of the period, there were early signs of an upturn in sentiment, with the UK equity market delivering a positive return of over 5%.

Portfolio Review & Activity

The River and Mercantile UK Equity Income Fund was launched on 2 of February 2009 and to date has returned -3.39% against the FTSE All-Share Index return of -1.47% and the Sub-fund was 2nd quartile within the UK Equity Income Sector over the period.

In general we have been adding to favourite defensives (GlaxoSmithKline, Vodafone Group, BAE Systems, Unilever, Smith & Nephew) funded from defensive holdings with weaker theses or falling scores of stocks in MoneyPenny, our bespoke screening system, such as National Grid. As mentioned above we adopted a modest overweight position following severe weakness in Life Insurance led by our strong confidence in the Prudential; in addition, we also added to Mining to reduce the sector underweight based on an increasing number of positive data-points (Rio Tinto's balance sheet saving Chinalco deal, BHP Billiton's positive dividend announcement, Xstrata's successful rights issue). We have reduced our modest launch position in Utilities further. MoneyPenny has continued to highlight attractive ideas which, following detailed verification work, have been selected for the Sub-fund since launch. A brief summary follows:

Holidaybreak, 8.1% yield, is the leading camping holiday operator with excellent recovery prospects. Mothercare, 4.0% yield, is a dominant niche operator with significant international growth potential and UK property restructuring opportunities. Psion, 7.2% yield, is a rugged hand-held mobile computing specialist with material recovery prospects and new management valued at near cash in bank. Rensburg Sheppards', 6.6% yield and Schroders 4.2% yield, both high quality cash-rich wealth-management franchises.

Outlook

Hopefully we have now come through the worst, through the depths of the bear market and through a period when the valuation of companies appeared to be an irrelevance. We continue to focus on the factors that underpin the River and Mercantile investment philosophy, namely Potential, Valuation and Timing; these are strong factors, and we expect them to deliver strong absolute and relative returns over the next few years.

UK Equity Income Fund

Top 10 Holdings

31 March 2009	% of Sub-fund
BP	8.24
Royal Dutch Shell (B)	7.35
Vodafone Group	7.11
GlaxoSmithKline	6.69
HSBC Holdings	4.53
British American Tobacco	3.73
Rio Tinto	2.75
AstraZeneca	2.72
Unilever	2.70
BHP Billiton	2.16

Sector Breakup

Sector	Portfolio %	Benchmark Index* %	Difference %
Oil & Gas	15.59	21.60	(6.01)
Basic Materials	6.22	8.68	(2.46)
Industrials	13.19	6.77	6.42
Consumer Goods	7.76	12.14	(4.38)
Health Care	10.86	9.33	1.53
Consumer Services	13.18	10.38	2.80
Telecommunications	9.73	6.87	2.86
Utilities	2.89	4.27	(1.38)
Financials	17.22	18.69	(1.47)
Technology	2.75	1.26	1.49

*Source: Style Research.

Portfolio Turnover

**2 February 2009 to
31 March 2009**

Total purchases for the period	£4,221,457
Total sales for the period	£513,164
Portfolio Turnover Rate	26.70%

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 2 February 2009, therefore there is no comparative PTR.

UK Equity Income Fund

Fund Performance

	Net asset value of Sub-fund £	Net asset value per share P	Shares in issue
31 March 2009			
A-Class – Income shares	36,804	94.28	39,035
B-Class – Income shares	3,489,628	235.99	1,478,740

Year	Highest share price	Lowest share price	Net revenue
A-Class Income shares			
2009 ⁽¹⁾	104.75p	88.25p	1.0688p
B-Class Accumulation shares			
2009 ⁽¹⁾	261.90p	220.78p	2.6700p

⁽¹⁾The above table shows highest and lowest share prices from 2 February 2009 to 31 March 2009. This table also shows net revenue to 31 May 2009.

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The Open-Ended Investment Company	River and Mercantile Funds ICVC 30 Coleman Street London EC2R 5AL (authorised and regulated by the Financial Services Authority)
Registered in England	The Company is incorporated in England and Wales with registered number IC000489.
The Authorised Corporate Director (ACD)	River and Mercantile Asset Management LLP 30 Coleman Street London EC2R 5AL (authorised and regulated by the Financial Services Authority) Registered and Head Office of the Company 30 Coleman Street London EC2R 5AL
Depository	BNY Mellon Trust & Depository (UK) Limited The Bank of New York Mellon Centre, 160 Queen Victoria Street London EC4V 4LA (authorised and regulated by the Financial Services Authority)
Administrator and Registrar	The Bank of New York Mellon (International) Limited BNY Mellon House Ingrave Road Brentwood Essex CM15 8TG (authorised and regulated by the Financial Services Authority)
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