

RIVER AND MERCANTILE
ASSET MANAGEMENT

River and Mercantile Funds ICVC
Short Report for the Period Ended
30th September 2007

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Further information

This interim Short Report, which is unaudited, 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 also unaudited, and the Prospectus, which contains a written statement of Terms and Conditions of the Company, can be obtained using the contact details shown on the back cover.

River View

Introduction

This is the first report for the River and Mercantile Funds ICVC, and I would like to take this opportunity to thank all those who have supported and invested in our funds since the first fund launch in late November 2006. It has been a frenetic period; but we have been delighted with the launch of the business, the team we have put together and the support we have received from the market. Whilst it is still early days we have had a very positive start and this had been down to the hard work, diligence and professionalism of all. As this is our first report it seems appropriate to put into context what we have achieved and where we see the opportunities in the immediate short term.

The Background

River and Mercantile Asset Management LLP (R&M), the funds ACD, was formed by a management team led by James Barham and Julian Cripps with the backing of Sir John Beckwith and his Pacific investment team led by Mark Johnson. We believe that there is an attractive opportunity for the launch of new specialist investment boutiques. This is driven by a number of factors, in particular the fact that a number of existing specialists launched over the last decade are now reaching their stated capacity constraints and are closing to new business. The trend towards boutiques remains as they continue to become the management structure of choice of the leading investment consultants and professional investors.

The Plan

Against this background we aim to launch a business that will provide a “route to market” for the broader partnership, that would allow investors access to the investment expertise that has been so carefully gathered, and to put in place the infrastructure to provide for future growth in the fund range within the ICVC.

This plan which is based on our collective experience, provides for a funds business that will evolve over the longer term and provide investors with an increasingly diversified proposition in terms of our fund range.

Current Position

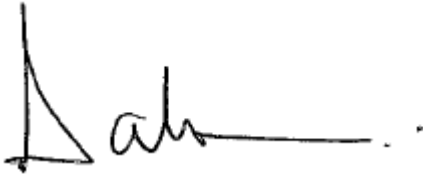
We have delivered against the original plan and, in most cases, positively surprised. The main achievements during the reporting period were:

- Established the ACD's organisation and operational infrastructure
- Recruited a highly rated UK Equity Division
- Developed and published the UK Equity Philosophy and Process
- Launched the R&M Funds ICVC and related products into the retail and institutional markets

In the first ten months of trading R&M has attracted in excess of £350m of assets under management, £80m of which are in the R&M Funds ICVC. Much of this success is attributable to the solid relationships that have been established with the key institutional consultants, clients and intermediaries. These relationships will stand us in good stead as our business develops over the coming years.

The Future

Over the next year we will look to develop further the UK Equity division, building on the very strong start that has been achieved. In due course we will also seek to diversify our product offering, and work with our clients and advisors to deliver a partnership of which we can be genuinely proud.

A handwritten signature in black ink, appearing to read 'James Barham', with a long horizontal line extending to the right.

James Barham
Chief Executive

UK Equity High Alpha Fund

Fund Aim

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

Risk Profile

The fund is primarily invested in companies listed on the London Stock Exchange that reside within the FTSE All-Share Index. Therefore, it is open to risks associated with market movements.

Our approach to risk and portfolio construction reflects our overall investment philosophy and further information can be obtained from the River and Mercantile UK Equity Philosophy and Process document.

Fund Facts

Fund Inception 28th November 2006

Accounting Dates

Interim 30th September
Final 31st March

Total Expense Ratio	30th September 2007	28th November 2006
A Class	N/A	N/A
Z Class	N/A	N/A

Please note that as the Fund is less than a year old, we are unable to provide an accurate TER.

Distribution Details

A Class	0.9203 p per share
Z Class	11.0551 p per share

UK Equity High Alpha Fund

Market Background

What a time to launch a new fund! UK Equity returns since the launch of the River and Mercantile UK Equity High Alpha Fund last November have been decently positive, the FTSE All Share returning 9.7%, but this return hides a multitude of developments including a credit crunch, a collapsing dollar, and a love affair with all things found in the ground. The period we are reporting on started well, with equities being supported by strong 2006 results from companies and an apparently benign economic background. This all unwound in the summer, when bad debts from sub-prime mortgage lending in the US fed its way into an overly leveraged Global financial system. The result has been a credit crunch, a far more volatile equity market, and worries about the impact of all this on the real economy.

Portfolio Review

Our portfolio positioning is driven by our proprietary three factor **PVT** philosophy. We look for companies that can generate significant medium term increases in shareholder value (**P**otential), in combination with a share price that is at a clear discount to our estimate of medium term **V**alue, and where the **T**iming is right as evidenced by improving profits and share prices.

How effective has PVT been in driving superior returns during this accounting period? The market background has not been an ideal one for our philosophy, with the market narrowly focused on the resources companies and other momentum stocks, and as a result ignoring the qualities of our best PVT ideas. We avoided many of the painful financials, but we have been under-exposed to the exuberant mining stocks, which has attributed to a large extent, to the fund underperforming the market return by 2.4% returning 7.3% (*performance calculated on a mid to mid basis at close of business, gross of annual management charge*).

Our portfolio positioning has been to have a multi-themed spread of PVT anomalies, and this remains particularly relevant during these uncertain times. Our themes include self-help companies such as Compass, fast growing and lowly rated technology stocks such as Kewill, companies that service the oil industry such as Lamprell, and quality stocks where returns can continue to improve including Unilever. We are cautious of cyclical companies operating at peak profit margins, where a permanent loss of capital could be experienced. This would include the mining majors. And we continue to be cautious about the banking sector, until we have greater confidence about their sustainable level of profits and capital.

UK Equity High Alpha Fund

Outlook

Equity markets are likely to continue to be volatile, impacted by credit markets and news flow from the real economy. Our view is that the starting valuation for UK equities remains supportive of generating decent medium term returns (an earnings yield of 8% is attractive), but that there is enough uncertainty about the strength of economies and corporate profits to mean that the path to positive returns will be an uneven one. Our stock picking approach remains one of hunting for the highest conviction PVT stocks and we have great confidence that this will generate superior medium term returns.

Fund Performance

Date	Unit Price	
	A Class	Z Class
30/09/07	106.79p	540.51p
28/11/06	100.00p	500.00p

Top 10 Holdings

September 30, 2007	% of Fund	November 28, 2006*	% of Fund
BP	6.26	GlaxoSmithKline	5.36
Vodafone Group	5.55	Vodafone Group	5.29
GlaxoSmithKline	4.99	BP	4.24
Royal Bank of Scotland	3.37	Royal Bank of Scotland	3.89
HSBC	3.28	HSBC	3.59
HBOS	2.71	HBOS	3.20
Royal Dutch Shell 'A'	2.61	Barclays	3.09
Prudential	2.08	Royal Dutch Shell 'A'	2.31
BT	1.91	BT	2.30
Unilever	1.86	Anglo American	2.26

* Fund Inception

UK Equity Smaller Companies Fund

Fund Aim

The investment objective of the 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

The Fund primarily invested in companies listed on the London Stock Exchange that reside within the Hoare Govett Smaller Companies Index. Therefore, it is open to risks associated with market movements.

Our approach to risk and portfolio construction reflects our overall investment philosophy and further information can be obtained from the River and Mercantile UK Equity Philosophy and Process document.

Fund Facts

Fund Inception 30th November 2006

Accounting Dates

Interim 30th September
Final 31st March

Total Expense Ratio	30th September 2007	30th November 2006
A Class	N/A	N/A
Z Class	N/A	N/A

Please note that as the Fund is less than a year old, we are unable to provide an accurate TER.

Distribution Details

A Class 0.4470 p per share
Z Class 8.5467 p per share

UK Equity Smaller Companies Fund

Market Background

UK equity returns since the launch of the River and Mercantile UK Equity Small Cap Fund in November 2006 have been broadly positive with the FTSE All Share returning 9.7%. Smaller Companies have underperformed the broader market for the first time since 2002, returning 4.0% (Hoare Govett Small Companies Index). There has been significant volatility during the period with the market up strongly until the end of May, but due to events such as the credit crunch, a collapsing dollar, and a reversal in interest rate policy direction the subsequent 6 months have seen negative returns. Within the small cap universe, the AIM market in particular has been strong with increased risk appetite and a large weighting in strongly performing resource stocks. Stocks sensitive to a slowdown in the domestic UK economy have been weak with the real estate and general retailers sectors hit particularly hard.

Portfolio Review

Our portfolio positioning is driven by our proprietary three factor **PVT** philosophy. We look for companies that have the **P**otential to generate significant medium term increases in shareholder value, in combination with a share price that is at a clear discount to our estimate of medium term **V**alue, and where the **T**iming is right as evidenced by improving profits and share prices.

The fund was ahead of its benchmark over the accounting period by 1.5%, returning 5.5% (*performance calculated on a mid to mid basis at close of business, gross of annual management charge*). Initially the market background was challenging at launch with the small cap index up 7% in our first month as we tried to invest cash into the market. A relatively narrow market focus on the resources companies and other growth stocks, made it difficult to keep up with the bull market. Since May a more focused approach to earnings visibility and fundamental growth potential has delivered much better relative returns and we have become more confident in our positioning going forward. We have received bids in a number of stocks including Universal Salvage, Sondex and Domestic & General.

Our portfolio is constructed to have a diversified spread of PVT stocks, and this remains particularly important as company earnings comes under pressure. Our holdings include **R**ecovery companies with 'self-help' such as Jarvis, Lavendon and Pace Micro Technology, **G**rowth companies such as care homes operator Southern Cross and high **Q**uality franchises with improving returns such as Diploma, Chaucer and ITE. We are cautious of cyclical companies operating at peak profit margins, where a permanent loss of capital could be experienced. We have found a number of opportunities elsewhere, the oil & gas explorers JKX and Burren, service companies Babcock, Cape and Innovation Group which benefit from robust outsourcing trends, and Aerospace & Defence stocks Ultra Electronics and Chemring. We continue to be cautious about the financials and consumer sectors.

UK Equity Smaller Companies Fund

Outlook

Equity markets are likely to continue to be volatile, impacted by credit markets and newsflow from the real economy. Our view is that the valuation for UK equities remains supportive of generating decent medium term returns but that there is enough uncertainty about the strength of economies and corporate profits to mean that the path to positive returns will be an uneven one. The small cap universe continues to offer rich pickings for active managers and our stock picking approach remains one of hunting for the highest conviction PVT stocks. We have confidence this will generate superior medium term returns.

Fund Performance

Date	Unit Price	
	A Class	Z Class
30/09/07	104.99p	531.07p
28/11/06	100.00p	500.00p

Top 10 Holdings

September 30, 2007	% of Fund	November 30, 2006*	% of Fund
Lamprell	2.55	Aquarius Platinum	2.05
Babcock International	2.26	Regus Group	2.02
Southern Cross	2.26	Abacus	2.02
Dignity	2.01	Findel	2.01
Chemring Group	2.00	Cookson Group	2.00
Sondex	1.87	Venture Production	1.81
Carillion	1.78	Premier Foods	1.75
Greggs	1.75	Spirent	1.74
Scott Wilson Group	1.68	Anite Group	1.70
Kewill	1.62	Raymarine	1.57

* Fund Inception

UK Equity Unconstrained Fund

Fund Aim

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

Risk Profile

The Fund is primarily invested in companies listed on the London Stock Exchange that reside within the FTSE All-Share Index. Therefore, it is open to risks associated with market movements.

Our approach to risk and portfolio construction reflects our overall investment philosophy and further information can be obtained from the River and Mercantile UK Equity Philosophy and Process document.

Fund Facts

Fund Inception 22nd March 2007

Accounting Dates

Interim 30th September
Final 31st March

Total Expense Ratio	30th September 2007	22nd March 2007
A Class	N/A	N/A
Z Class	N/A	N/A

Please note that as the Fund is less than a year old, we are unable to provide an accurate TER.

Distribution Details

A Class 0.5116 p per share
Z Class 7.0556 p per share

UK Equity Unconstrained Fund

Market Background

UK equity returns since the launch of the River and Mercantile UK Equity Unconstrained Fund in March 2007 have been mildly positive. The FTSE All Share returned 2.9%, but this return hides significant volatility during the period due to events such as the credit crunch, a collapsing dollar, and a reversal in interest rate policy direction. The market return has been mainly driven by the very strong performance of the Resources majors which have become a meaningful part of the index over recent years, yet the commodities price environment has been mixed when compared to moves in recent years, with key sector profit drivers such as copper being benign, while oil and gold (in Dollar terms) are near all-time highs. As bad debts from sub-prime mortgage lending in the US fed its way into an overly leveraged global financial system, investors have sort out 'safe-havens' which include equities whose end markets have supposedly 'de-coupled' from the weakening US economy.

Portfolio Review

Our portfolio positioning is driven by our proprietary three factor **PVT** philosophy. We look for companies that can generate significant medium term increases in shareholder value (**P**otential), in combination with a share price that is at a clear discount to our estimate of medium term **V**alue, and where the **T**iming is right as evidenced by improving profits and share prices.

We avoided Banks, Housebuilders and Real Estate during the period. Our oil services exposure was highly beneficial. However, we have also had limited exposure to the exuberant mining majors and overall we underperformed the market return by 3.9% returning -1.1% (*performance calculated on a mid to mid basis at close of business, gross of annual management charge*).

Our portfolio positioning has been to have a multi-themed spread of PVT anomalies, and this remains particularly relevant during these uncertain times. Our holdings include **Recovery** companies with 'self-help' such as Compass, BT and Cable & Wireless, fast **Growth** companies such International Power and oil service businesses Lamprell and Expro and high **Quality** franchises with improving returns such as the Tobacco majors, Unilever and SSL International. We are cautious of cyclical companies operating at peak profit margins, where valuations do not reflect the risks to earnings forecasts. We have found multiple opportunities, though, where the companies drivers to profit growth and shareholder value creation do not heavily rely on the business cycle such as the oil & gas explorers BG and Burren, the latter of which received a bid during the period, service companies Babcock, Cape and Innovation Group which benefit from robust outsourcing trends, and Aerospace & Defence stocks Bae Systems, Meggitt and Chemring.

UK Equity Unconstrained Fund

Outlook

Equity markets are likely to continue to be volatile, impacted by credit markets and newsflow from the real economy. Our view is that the valuation for UK equities remains supportive of generating decent medium term returns (an earnings yield of 8% is attractive, given the growth and alternative asset class yields), but that there is enough uncertainty about the strength of economies and corporate profits to mean that the path to positive returns will be an uneven one. Our stock picking approach remains one of hunting for the highest conviction PVT stocks and we have great confidence that this will generate superior medium term returns.

Fund Performance

Date	Unit Price	
	A Class	Z Class
30/09/07	89.61p	497.45p
22/03/07	100.00p	500.00p

Top 10 Holdings

September 30, 2007	% of Fund	March 22, 2007*	% of Fund
BAT	5.06	GlaxoSmithKline	5.24
GlaxoSmithKline	4.78	Centrica	4.55
BT	4.52	BAT	4.44
Unilever	4.29	BT	4.38
Cable & Wireless	3.86	Standard Life	4.09
International Power	3.83	International Power	4.00
Compass Group	3.69	Serco Group	3.95
BG Group	3.68	Royal & Sun Alliance	3.87
Reed Elsevier	3.58	Vodafone Group	3.73
Meggitt	3.44	Compass Group	3.66

* Fund Inception

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	ABN AMRO Mellon Global Securities Services B.V Mellon Financial Centre 160 Queen Victoria Street London EC4V 4LA (authorised by the Dutch Central Bank (De Nederlandsche Bank) and the Financial Services Authority)
Administrator and Registrar	Administrators and Registrars Mellon Bank N.A. (London Branch) Mellon Financial Centre 160 Queen Victoria Street London EC4V 4LA (authorised and regulated by the Financial Services Authority) Address where Register will be kept:- Mellon House Ingrave Road Brentwood Essex CM15 8TG
The Independent Auditors	PricewaterhouseCoopers LLP Southwark Towers 32 London Bridge Street London SE1 9SY
Solicitors	Burges Salmon LLP Narrow Quay House Narrow Quay Bristol BS1 4AH

River and Mercantile Asset Management LLP
30 Coleman Street
London
EC2R 5AL

Telephone: +44 (0)20 7601 6262
Facsimile: +44 (0)20 7600 2462
Email: enquiries@riverandmercantile.com

Website: www.riverandmercantile.com