RIVER AND MERCANTILE GROUP

Interim Financial Report

Six months ended 31 December 2016

Contents

River and Mercantile Group PLC

Interim Financial Report for the six months ended 31 December 2016

River and Mercantile Group PLC, the advisory and investment solutions business today publishes its interim results for the six months ended 31 December 2016.

Investment Highlights

- Fee earning AUM/NUM increased by 13% to £28.7bn, and mandated AUM/NUM increased by 15% during the period. Fee earning AUM/NUM increased by 28% from 31 December 2015.
- Net sales in the period were £1.5bn. The Group has had positive net sales in all 11 quarters since IPO.
- Net inflows in the period (including rebalance) were £2.0bn with all divisions having net positive flows.
- Performance fees for the period were £4.7m.

Financial Highlights

- Statutory net profit after tax was £6.1m, compared to £2.7m for the six months ended 31 December 2015, primarily due to growth in management fees and performance fees.
- Statutory basic and diluted earnings per share (EPS) were 7.41 pence per share and 7.40 pence per share, compared to 3.25 pence and 3.01 pence respectively for the six months ended 31 December 2015.
- Adjusted profit after tax[1] was £7.6m, compared to £4.9m for the six months ended 31 December 2015.
- Adjusted basic and diluted EPS[2] were 9.26 pence per share and 9.25 pence per share, compared to 5.98 pence and 5.55 pence respectively for the six months ended 31 December 2015.
- The Board of Directors have declared an interim dividend of 5.6 pence per share, of which 1.4 pence is a special dividend and relates to net performance fees. The dividend will be paid on 31 March 2017 to shareholders on the register as at 10 March 2017. The ex-dividend date is 9 March 2017.

Operating Highlights

- Net management fees were £21.4m, an increase of 13% over the prior six months and an increase of 20% over the six months ended 31 December 2015, due to the continued growth in AUM/NUM.
- Net advisory fees were £5.2m, an increase of 14% from the prior six months and an increase of 22% from the six months ended 31 December 2015.

- Performance fees were £4.7m, compared to £0.3m in the prior six months and £1.2m in the six months ended 31 December 2015.
- Adjusted underlying pre-tax margin[3] was 27%, compared to 24% in the year ended 30 June 2016.

A PDF copy of the interim financial report, alongside an investor presentation and video with management, can be found at:

http://riverandmercantile.com/Asp/uploadedFiles/file/Investor_relations/RandM_Interim_Report_201617.pdf

http://riverandmercantile.com/investor_relations/riv_interims_201617

Notes:
[1] Adjusted profit represents statutory profit adjusted to add back the amortisation of intangible assets, EPSP costs, the non-recurring costs associated with the implementation of the Group's new IT infrastructure and the gain on disposal of the Group's seed positions.

[2] Adjusted EPS is the adjusted profit after tax divided by the weighted average number of shares outstanding in the period, either including or excluding those which are dilutive (refer to note 11 in the condensed consolidated interim financial statements).

[3] Adjusted underlying pre-tax margin represents net management and advisory revenue less the related expense base including remuneration, excluding the non-recurring costs associated with the implementation of the Group's new IT infrastructure and the gain on disposal of the Group's seed positions, divided by net management and advisory revenues.

Forward-looking statements

This announcement contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of River and Mercantile Group PLC. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future.

There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. The continuing uncertainty in global economic outlook inevitably increases the economic and business risks to which the Group is exposed.

Nothing in this announcement should be construed as a profit forecast.

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Kevin Hayes, Chief Financial Officer

Chris Rutt, Deputy Chief Financial Officer and Investor Relations

Chairman's Statement

I am pleased to report a strong set of results for the first half of our 2017 financial year, with all of our key income statement and AUM/NUM metrics up at least 20% compared to the same period in the prior year. In particular, adjusted underlying profit before tax at £7.1m is up 28% on the same half last year and this is matched by the growth in assets. The growth in performance fees (300%) shows that not only has the Group done well but we have also done well for our clients.

We are following the same approach to the interim dividend as we adopted in 2015 and 2016, namely distributing 60% of the adjusted post-tax profit. This generates an interim dividend of 5.6 pence per share, of which 1.4 pence is a special dividend representing net performance fees.

Equity markets have been strong in the period and there have been increases in interest rates, but in looking forward the world remains an uncertain place with considerable risk and potentially high volatility. This is a world ideally suited to our business model.

Set against the positive backdrop of our results was the extremely sad news of the untimely death of our chairman Paul Bradshaw. Paul had led the business through the IPO and was instrumental in guiding the Board through the process and since. It is especially sad that, having done so much of the hard work, Paul will not see the end results. He will be greatly missed. The process to recruit a new chairman is well underway.

Peter Warry
Interim Chairman

Report of the Chief Executive Officer

In this statement, I want to address briefly the progress we have made during the first six months, in the context of what I identified as key themes in the 2016 Annual Report. I would then like to comment briefly on the outlook for the business.

Progress in the six month period

I am pleased to report that, in general, the business has progressed in line with the guidance in my Annual Statement, with the exception of one area (wholesale equities), which has outperformed. In particular:

- Advisory revenue has been increasing;
- Fiduciary flows have been positive and AUM has grown from the year end. AUM in Fiduciary Management was negatively impacted in the December quarter due to rising interest rates (more on this below);
- Derivatives has continued to grow, through both positive flows and net rebalance;
- Institutional equities has performed strongly. Support from intermediaries has been an important factor;
- Wholesale equities has performed strongly in the quarter ended December in particular. I provide more comments on this below;
- We expect our Dynamic Asset Allocation fund to go through £100m in February with committed flows; and
- Performance fees have been strong, consistent with our guidance that this would happen in a rising interest rates environment.

There are two areas I wish to comment on further – the effect of changing interest rates and the performance of the Wholesale equities business.

The effect of changing interest rates

During the quarter ended December, bond yields rose relatively significantly. For example, 10 year Gilt yields rose from 0.8% to 1.3%. What is less easy for investors to see is that the majority of this rise was driven by expected inflation. Because a significant proportion of the liabilities of our clients are related to inflation, in practice much of the negative effects of rising interest rates has been offset by an increase in liabilities through expected inflation. Nonetheless, AUM in Fiduciary Management has been affected by rising bond yields, but not by as much as one might think. Our actions on behalf of clients to dynamically manage their hedging have also reduced the effect somewhat.

However, as I guided in the Annual Report, an environment of rising bond yields is an environment where, all else being equal, we would expect Fiduciary Management performance fees to improve. This has been the case in the six month period. With performance fees from Fiduciary Management having been a more muted £1.2m during the whole of the 2016 financial year, the six month period saw these rise to £4.4m. This is an increase even over the same period in the 2015 financial year, which produced our highest performance fees since IPO.

Clearly our ongoing performance fees are exposed to a significant fall in rates from here, but the corresponding effect of rising AUM in our Fiduciary Management division would be an offsetting effect.

Equity Solutions - Wholesale

I have never been happier than now that the risks about which I was concerned six months ago seem not to have come to pass. Furthermore, the business has caught its stride for reasons I will explain.

There is clearly a significant focus in the industry – and also by the FCA – on the nature of active management and whether it can work or not. This is actually a very old debate and one which the consulting industry in general (and our subsidiary P-Solve in particular) has been studying for a long time. Research conducted by P-Solve has shown that the style adopted by an active manager is one of a number of key factors in influencing the likelihood of an active manager outperforming. Specifically, value and small cap managers tend to have higher levels of persistency in delivering added value than other styles. We have known this for some time and as a result this has given me confidence that our Equity Solutions business, where the focus is primarily on value and smaller companies, is strategically well positioned in the long run.

However, in a post Brexit world, we had seen some outflows from our wholesale clients and in particular we were not seeing evidence that this market was taking advantage of the benefits that value seemed to offer. Furthermore, I could see the risk that a Trump victory in the US may have led to similar concerns from investors, with a corresponding new set of outflows.

As it turned out, I am very pleased to say, a Trump victory did not lead to market calamity during the period and the wholesale market has now turned its attention to the benefits of value strategies. This is positive for us and is testament obviously to the hard work over a long period of time from Hugh Sergeant and his team in portfolio management. But I particularly want to single out Mark Thomas and his distribution team for their tireless work in getting the value message out to the market over the last two years. This now seems finally to have paid off and the flows during the December quarter have been substantial as a result. Congratulations to all of you.

Overall

The December quarter is the second period since the IPO where we have seen the growth in Wholesale AUM (and the Equity Solutions division in general) offset the effect of rising interest rates on Fiduciary AUM. This is not an accident. It is not unusual for rising interest rates to correspond with performance from value strategies in general and this is what we have seen. Again, it is the diversification in action and the reverse of what we saw last year when the Fiduciary business was taking more of the weight of growth.

Overall we have seen good growth in all key income statement and AUM metrics, as shown in the table below:

	Six months ended 31 December 2016	Six months ended 31 December 2015	Increase (%)
Fee-Earning AUM/NUM	£28.7bn	£22.5bn	28%
Sales	£2.9bn	£2.3bn	24%
Revenue	£31.4m	£23.4m	34%
Statutory profit before tax	£7.0m	£3.3m	112%
Adjusted underlying profit before tax	£7.1m	£5.5m	28%
Net performance fee profit before tax	£2.4m	£0.6m	300%
Interim dividend	5.6 pence per share	3.6 pence per share	56%

The table speaks for itself. However, I want to make the reverse of a point I made in my Annual Statement. We are focused on building a strong, high performing and well diversified business. In this regard we focus on building long-term relationships that are often institutional in nature. For this reason our returns can be lumpy, year-on-year, because investment performance and sales do not come in evenly throughout the year.

Last year, a lot of our growth came towards the back end of the year, and this led to our revenue growth being lower than our underlying asset growth. This year it is the reverse. We saw very strong investment performance contributions in our first quarter, and therefore our growth statistics are flattered by this front-loading effect. The growth in the business is still great, just not as good as the revenue numbers suggest.

Outlook for the business

We have many initiatives across the business and are making good progress. The search for alpha remains, but the need for high quality asset allocation and risk management will likely also remain for as long as the world seems to be a highly uncertain place and seems unlikely to become any more certain in the near future. While there are clearly very significant and continuing political risks, the abundance of capital chasing return should continue to influence the environment for investors. The regulatory context is also important to consider and is not going away.

In this regard, the FCA's recent interim report from their review into the asset management sector has prompted many questions from investors. It therefore makes some sense for me to comment on this and its impact more generally on our business outlook.

The FCA addressed a number of areas but I think a few are noteworthy:

- The FCA continues to have concerns over fees in investment products and how they relate to passive alternatives, considering that – on average – the passive alternative is much cheaper.
- There are concerns over conflicts of interest in investment advisory businesses that also operate fiduciary management businesses.
- Questions are raised about whether consultancy businesses are applying sufficient competitive pressure on asset management fees for their smaller clients. An observation is also made about the corporate entertainment relationships between consultants and asset managers and it is hard not to draw the inference that the FCA believes the two features might be linked.

On each of these areas I believe we are well-placed. We offer highly active and successful strategies that have higher fees, but also passive and lower cost alternatives through our derivatives business. We strive to ensure that we never abuse our client relationships – or indeed our clients' intelligence – by suggesting our impartial view as an adviser is they should use us as fiduciary manager. Indeed, the vast majority of fiduciary business is now intermediated by independent parties and the conflict is addressed in that way. Similarly, we are always advocates for transparency in what we do and make negotiated house deals with investment managers available to all clients, regardless of size.

More generally, we welcome the FCA's desire to focus the industry more closely on investor outcomes. It is obviously consistent with the approach we take to engaging with clients. But more importantly it is good for the industry in general as it should improve client confidence.

In memory of Paul Bradshaw

During January 2017 River and Mercantile's Chairman, Paul Bradshaw, sadly passed away unexpectedly. Paul was a strong presence in the firm since we created River and Mercantile Group and through the subsequent IPO. He had been a very engaged Chairman and his contribution to the development of this firm cannot be overstated. Our thoughts and prayers are with his wife and family at this difficult time.

Paul was a friend of mine for 20 years, and I know that he loved being Chairman of this company and held it in very high regard, and that is a testament to the great work our people do. We will miss him.

Mike Faulkner
Chief Executive Officer

Investment performance as at 31 December 2016

£'bns

Investment strategy	AUM/NUM as at 31 December 2016	Investment performance since inception: Absolute	Relative	Inception date
TIGS	8.9	11.0%	-0.6%	Jan-04
TIGS (excluding liability hedging)	6.8	7.0%	1.4%	Jan-04
DC - Long Term Growth	0.3	10.5%	3.8%	Nov-11
DC - Stable Growth		9.3%	3.7%	Oct-11
DC - Cautious Growth		10.1%	5.5%	Oct-11
Dynamic Asset Allocation Fund	0.1	7.1%	2.3%	Sep-14
Insurance - Investment Fund	0.1	2.3%	0.4%	Apr-16
Structured equity	3.5	6.8%	0.8%	Dec-05
World Recovery (HS)	0.2	18.6%	6.0%	Mar-13
Global High Alpha (HS)	0.6	20.2%	5.4%	Dec-14
UK High Alpha (HS)	0.3	8.6%	2.7%	Nov-06
UK Long Term Recovery (HS)	0.1	14.5%	6.2%	Jul-08
UK Smaller Companies (PR)	0.8	12.6%	6.6%	Nov-06
UK Income (DH)	0.3	14.2%	1.8%	Feb-09
UK Dynamic Equity (PR)	0.1	7.4%	2.0%	Mar-07
UK Equity Micro Cap Investment Company (PR)	0.1	22.9%	12.4%	Dec-14

TIGS – Total Investment Governance Solutions (part of Fiduciary Management).

DC – Defined contribution.

HS – Hugh Sergeant.

PR – Philip Rodrigs.

DH – Dan Hanbury.

Key Performance Indicators

	31 Dec 2016 6 months	30 Jun 2016 6 months	31 Dec 2015 6 months
1. Growth in fee earning AUM/NUM:	13%	14%	7%

Fee earning AUM/NUM was £28.7bn, £25.5bn, £22.5bn and £21.0bn as at 31 December 2016, 30 June 2016, 31 December 2015 and 30 June 2015 respectively.

The growth in AUM/NUM is a key indicator of the client engagement process. The growth in AUM/NUM is a function of new mandates, low attrition rates, and aggregate investment performance.

Previously, the Group reported growth in mandated AUM/NUM, which differs from fee earning in that it includes any known mandate wins or losses expected to transition within three months. In some cases, these transitions occurred later than three months. The Board therefore considers the movement in fee earning AUM/NUM to be a more consistent method for measuring performance.

	31 Dec 2016 6 months	30 Jun 2016 12 months	30 Jun 2015 12 months
2. Regretted institutional client attrition:	1.0%	3.5%	0.8%

Regretted institutional client attrition is the opening AUM/NUM of lost clients, divided by total opening AUM/NUM. It excludes clients which have entered the Pension Protection Fund (PPF) or left due to achieving funding objectives and moving to buy-in or buy-out, and redemptions arising due to normal operational cash outflows, e.g. to fund benefit payments. It is considered to be a good measure of the success of the business model in retaining clients. It is not measured for Equity Solutions – Wholesale as it is a measure of the stability of institutional relationships.

Regretted institutional client attrition is compared to 12 month prior periods as there is no seasonality to attrition and 12 month comparatives provide the most extensive period of comparison.

	31 Dec 2016 6 months	30 Jun 2016 6 months	31 Dec 2015 6 months
3. Growth in net management and advisory fees:	13%	6%	(5%)

Net management and advisory fees were £26.7m, £23.5m, £22.2m and £23.4m for the six months ended 31 December 2016, 30 June 2016, 31 December 2015 and 30 June 2015 respectively.

Management and advisory fees net of rebates and third party revenue shares, represent the underlying revenues generated by the business. The growth of AUM/NUM at stable management fee margins, and the absolute growth in advisory clients and revenue per client results in growth in management and advisory fees. This metric measures the sustainability of the business.

	31 Dec 2016 6 months	30 Jun 2016 6 months	31 Dec 2015 6 months
4. Adjusted underlying pre-tax margin:	27%	24%	25%

Adjusted underlying pre-tax profit was £7.1m, £5.6m and £5.5m for the six months ended 31 December 2016, 30 June 2016 and 31 December 2015 respectively.

Net management and advisory fees were £26.7m, £23.5m and £22.2m for the six months ended 31 December 2016, 30 June 2016 and 31 December 2015 respectively.

Adjusted underlying pre-tax margin represents net management and advisory revenue less the related expense base including remuneration, divided by net management and advisory revenues.

Adjusted underlying pre-tax margin is an indication of the ability to achieve scale through increased management and advisory revenues, at a lower marginal increase in related expenses. The progression over time is an indication of the scale achieved. The target in the medium term is to increase the adjusted underlying pre-tax margin to 30%.

	31 Dec 2016 6 months	30 Jun 2016 12 months	31 Dec 2015 6 months
5. Percentage of adjusted basic earnings per share distributed:	60% (interim)	82%	60%

Adjusted basic earnings per share (EPS) was 9.3 pence per share for the six months ended 31 December 2016. The interim dividend in respect of the period ended 31 December 2016 is 5.6 pence per share.

Adjusted basic EPS was 11.6 and 6.0 pence per share for the year ended 30 June 2016 and the six months ended 31 December 2015 respectively. The total dividends in respect of these periods were 9.5 and 3.6 pence per share respectively.

The Group's dividend policy is to pay at least 60% of the Group's adjusted underlying profits available for distribution by way of ordinary dividends. In addition, the Group expects to generate surplus capital over time, primarily from net performance fee earnings. The Group intends to distribute such available surpluses to shareholders, after taking into account regulatory capital requirements at the time and potential strategic opportunities, primarily by way of special dividends.

Financial review for the six months ended 31 December 2016

AUM/NUM and margins

The growth of our net management fee revenue results from the growth of our assets and notional under management and the stability of our management fees charged to clients.

Positive net flows are an indication of both our ability to retain existing assets, and our ability to win new mandates and increase allocations from existing client mandates.

The following table shows the AUM/NUM for the six months ended 31 December 2016:

	Assets Under Management (AUM) and Notional Under Management (NUM)					
£'m	Fiduciary Management	Derivative Solutions (NUM)	Equity Solutions			**Total AUM/NUM**
			Wholesale	Institutional	Total	
Opening fee earning AUM/NUM	9,287	13,903	1,171	1,187	2,358	**25,548**
Sales	440	2,059	278	134	412	**2,911**
Redemptions	(232)	(817)	(197)	(177)	(374)	**(1,423)**
	208	1,242	81	(43)	38	**1,488**
Net rebalance	-	548	-	-	-	**548**
Net flow	208	1,790	81	(43)	38	**2,036**
Investment performance	626	-	231	307	538	**1,164**
Closing fee earning AUM/NUM	**10,121**	**15,693**	**1,483**	**1,451**	**2,934**	**28,748**
Mandates in transition	27	-	-	-	-	27
Redemptions in transition	-	-	-	-	-	-
Total Mandated AUM/NUM	**10,148**	**15,693**	**1,483**	**1,451**	**2,934**	**28,775**
Opening mandated AUM/NUM	*9,238*	*13,483*	*1,171*	*1,187*	*2,358*	*25,079*
Increase/(decrease) in fee earning AUM/NUM	9.0%	12.9%	26.6%	22.2%	24.4%	12.5%
Increase/(decrease) in mandated AUM/NUM	9.9%	16.4%	26.6%	22.2%	24.4%	14.7%
Average fee earning AUM/NUM £'m	9,937	14,984	1,300	1,329	2,629	**27,550**
Average margin H1 2017 (bps)	17-18	7-8	72-73	42-43	57-58	**16**
Average margin 2016 (bps)	17-18	7-8	73-74	47-48	61-62	**16**
Net management fees H1 2017 £'000	8,519	5,343	4,735	2,813	7,548	**21,410**

The first six months of the year have seen a continuation of the Group's consistent and strong growth in AUM. The Group has generated positive net sales and investment performance in every quarter since its IPO in June 2014.

Margins have remained largely stable with the exception of Equity Solutions, where Institutional saw a reduction in average margins of around 10%. This principally resulted from a redemption from the R&M

UK Equity Long-Term Recovery Fund. The lost AUM in the fund has since been replaced by Wholesale clients.

As the Group has grown in size and has significantly increased its ability to distribute through consultants and intermediated channels, it is increasingly attracting larger mandate sizes in Fiduciary Management, Derivative Solutions (with structured equity) and Equity Solutions – Institutional. These larger mandates are often at lower margins than some historic mandates which are now at capacity or experiencing slower growth.

As a result, it is expected that blended margins will trend, in the medium term, towards 16-17bps in Fiduciary Management, 66-68bps in Equity Solutions – Wholesale and 39-40bps in Equity Solutions – Institutional.

Regretted institutional client attrition

We continue to monitor our client attrition, as a measure of the success of our business model, which is focused on client needs and desired outcomes, rather than a product-led approach to engagement. This leads to high levels of client satisfaction and low attrition rates.

£'m - unaudited	**Fiduciary Management**	**Derivatives**	**Equity Solutions – Institutional**	**Total (Six months)**
Gross outflows	232	817	177	1,226
Opening AUM/NUM	9,287	13,903	1,187	24,377
Outflow %	2.5%	5.9%	14.9%	5.0%
Regretted institutional client attrition rate	0.0%	0.8%	11.6%	1.0%

In the first half, Fiduciary Management saw transitions to the Pension Protection Fund (PPF) as well as a US client which reached a planned termination.

The Derivatives business saw a £590m transition into the PPF.

Equity Solutions' increase in regretted attrition arose from the loss of two clients, including the redemption from the UK Equity Long-Term Recovery Fund detailed above.

Revenue

£'000	Unaudited six months ended 31 December 2016	Unaudited six months ended 31 December 2015	Increase / (decrease) %	Year ended 30 June 2016
Net management fees				
- Fiduciary Management	**8,519**	6,736	26%	13,871
- Derivatives	**5,343**	4,596	16%	9,481
- Equity Solutions Wholesale	**4,735**	4,212	12%	8,750
- Equity Solutions Institutional	**2,813**	2,333	21%	4,662
	21,410	17,877	20%	36,764
Advisory fees				
- Retainers	**1,815**	2,002	(9%)	3,935
- Project fees	**3,420**	2,295	49%	4,970
	5,235	4,297	22%	8,905
Total net management and advisory fees	**26,645**	22,174	20%	45,669
Performance fees				
- Fiduciary Management	**4,447**	1,187	275%	1,227
- Equity Solutions	**300**	-	100%	299
Total performance fees	**4,747**	1,187	300%	1,526
Total revenue	**31,392**	23,361	34%	47,195

Net management fees

Management fees are charged generally as a percentage of the AUM/NUM we manage for clients and are negotiated based on a number of factors including the size of mandate. Net management fees reflect rebates and other payments to external distributors.

The six months ended 31 December 2016 has seen strong growth in management fees. As Mike has discussed, there are two main reasons that the growth is particularly strong in this period:

1) There has been a continuation of the Group's strong investment performance and net flows, with fee earning AUM/NUM up 13% since the start of the year; and
2) The AUM/NUM growth in the prior year occurred later in the year, with strong growth in the final quarter. The revenue attributable to this AUM/NUM was earned only partially in the prior year, as opposed to having a full-year effect in the current period.

Advisory fees

The Advisory division earns revenues from clients who engage us on a retained fee basis or from fees based on undertaking specific projects.

This period has seen a decrease in retainers. The reduction is primarily a result of moves to Fiduciary Management, particularly in our insurance business.

Project fees have increased, which is an effect often seen after periods of market turmoil as clients seek additional advice.

Performance fees

Performance fees are earned in Fiduciary Management and Equity Solutions.

Fiduciary Management

Investment performance in TIGS (the investment strategy within Fiduciary Management) above the benchmark generates performance fees for some clients.

As Mike outlines above and in the 2016 Annual Report, an environment of increasing interest rates tends to increase the quantum of performance fees. Conversely, falling rates tend to suppress the levels of performance fees (as was seen in the prior year).

Performance fees are recorded on the anniversary dates of each mandate, which fall throughout the year.

The majority of the performance fees in TIGS are subject to a deferral mechanism whereby performance fees are recorded one third in the year the investment performance occurs, and two thirds deferred and spread over two further years. If the performance hurdle is exceeded on an annual basis, the next third of the deferred fees becomes payable in each of the subsequent years. Underperformance in the deferral period is required to be made up in subsequent periods before performance fees can be earned. In the event that the client redeems its investment, deferred fees become immediately payable.

In the six months ended 31 December 2016, £4.4m of performance fees were earned, £0.4m from previously deferred performance fees. The amount of performance fees which would be earned during the second six months of the year assuming continued performance in line with the benchmark, is £1.5m.

Equity Solutions

In Equity Solutions, performance fees are earned on outperformance relative to a stated benchmark.
The majority of performance fees are realised based on a calendar year performance period.
Performance fees were £0.3m for the six months ended 31 December 2016.

At 31 December 2016 total performance fee eligible assets were £380m. Of these assets, £133m were below their performance benchmark by less than 5%, £179m were above by less than 5% and £68m were above by 5-10%. The weighted average rate of performance fees in respect of outperformance on the eligible AUM is 17%.

Revenue weighted asset allocation (RWAA)

In the Group's 2016 Annual Report, Mike introduced the RWAA to give greater clarity as to the underlying nature of our revenue base, which is significantly diversified from equities.

RWAA is calculated by taking our AUM/NUM as at the reporting date by the nature of exposure, which is then weighted by its revenue contribution.

	Unaudited six months ended 31 December 2016	**Unaudited six months ended 31 December 2015**
Equities	**39%**	39%
Interest rates	**18%**	16%
Cash/independent	**38%**	41%
Other	**5%**	4%

Equities represent long equity positions, arising in Fiduciary Management and Equity Solutions. Interest rates represent Gilts and other credit instruments, primarily in TIGS. Cash/independent represents cash positions, as well as revenues which are not directly sensitive to market movements. These include Advisory fees as well as Derivatives revenue which is typically charged on notional exposures as opposed to market values.

During the period, interest rates allocations increased and cash/independent decreased as Fiduciary Management increased interest rate exposure in TIGS.

Operating Expenses

£'000	**Unaudited six months ended 31 December 2016**	**Unaudited six months ended 31 December 2015**	**Year ended 30 June 2016**
Net management fees			
Operating expenses	**5,655**	4,799	9,790
Less: non-recurring IT migration costs	**(548)**	-	-
Recurring operating expenses	**5,107**	4,799	9,790
Net management and advisory fees	**26,645**	22,174	45,669
Percentage	**19.2%**	21.6%	21.4%

IT migration

Under the Transitional Services Agreement (TSA) with Punter Southall, the Group was provided with IT infrastructure as a service. This agreement ends by June 2017 at the latest and we are taking the opportunity as we transition to a new provider to revisit our IT architecture including disaster recovery, to ensure that we maintain best-in-class infrastructure for optimal performance and resilience of Group systems. The transition is expected to complete in May 2017.

This change in infrastructure is expected to lead to an increase in annual technology costs of £0.3-£0.4m per annum compared to 2016, as well as non-recurring implementation costs in 2017 of £1.1m, £0.5m of which has been incurred during the period.

During the second half of the financial year, the effect of product development costs, a head office rent review and other seasonal effects are expected to increase operating expenses compared to the six months ended 31 December 2016.

Remuneration

£'000	**Unaudited six months ended 31 December 2016**	**Unaudited six months ended 31 December 2015**	**Year ended 30 June 2016**
Fixed remuneration	**9,792**	9,330	18,423
Variable remuneration	**6,995**	3,087	7,111
Total remuneration (excluding EPSP)	**16,787**	12,417	25,534
Total revenue (excluding other income)	**31,392**	23,361	47,195
Remuneration ratio (total remuneration excluding EPSP/total revenue)	**53%**	53%	54%

Remuneration expense includes: (a) fixed remuneration comprising: base salaries, drawings, benefits and associated taxes; and (b) variable remuneration comprising: performance bonus and profit share paid to the Partners of RAMAM LLP and applicable taxes, and the amortisation of the fair value of performance share awards under the Performance Share Plan (PSP). It excludes the costs associated with the Executive Performance Share Plan (EPSP).

Variable remuneration is accrued on net management and advisory fees, and performance fees. The accrual rate of total remuneration is around 54% on net management and advisory fees and 50% on performance fees. This rate is expected to be maintained in the medium term, but the business still intends to lower the overall remuneration ratio (excluding EPSP costs) in the longer term.

Variable remuneration has increased in absolute terms compared to the prior period as a result of higher revenues, with the overall remuneration ratio falling as a result of the increased performance fees.

Employee Benefit Trust

During the period, the Group's EBT purchased 187,000 shares relating to previous years' PSP awards. The cost of these purchases was £0.3m and is shown in the statement of changes in equity.

As at 31 December 2016, the EBT held 748,000 shares at a total cost of £1.6m. The Group has granted non-dilutive employee share awards totalling 1.8m shares.

Statutory and adjusted profits

£'000	Unaudited six months ended 31 December 2016	Unaudited six months ended 31 December 2015	Year ended 30 June 2016
Statutory profit before tax	**7,019**	3,312	7,236
Pre-tax margin	**22%**	14%	15%
Adjusted profit before tax	**9,452**	6,120	11,849
Adjusted pre-tax margin	**30%**	26%	25%
Adjusted profit after tax	**7,576**	4,913	9,536
Adjusted underlying profit before tax	**7,079**	5,525	11,084
Adjusted underlying pre-tax margin	**27%**	25%	24%
Adjusted underlying profit after tax	**5,672**	4,437	8,926

Adjusted profit before tax represents statutory profit adjusted to add back the amortisation of intangible assets, EPSP costs, the non-recurring costs associated with the implementation of the Group's new IT infrastructure and the gain on disposal of the Group's seed positions. Adjusted profit after tax represents adjusted profit before tax, less applicable taxes. The Directors believe that adjusted profit after tax is a measure of the post-tax cash operating profits of the business and gives an indication of the profits available for distribution to shareholders.

Adjusted underlying pre-tax margin represents net management and advisory fees less the related expense base, excluding the amortisation of intangible assets, EPSP costs, the non-recurring costs associated with the implementation of the Group's new IT infrastructure and the gain on disposal of the Group's seed positions; divided by net management and advisory fees.

The adjusted underlying pre-tax margin is a key performance indicator for management. The objective is to increase this to at least 30% due to operating leverage in the platform. It has increased in the period as revenue growth has been greater than the growth in administrative expenses.

Capital, liquidity and regulatory capital

The business is strongly cash generative, generating net cash from operations of £5.5m in the six months ended 31 December 2016. Cash and cash equivalents at 31 December 2016 were £20.2m.

The disposal of the Group's seed investment position in the DAA fund generated £5.8m of cash from investing activities.

The Group is required by the UK Financial Conduct Authority to hold prudent levels of capital resource in order to ensure our financial stability. We undergo an ongoing Internal Capital Adequacy Assessment Process (ICAAP), to ensure that we are holding sufficient levels of equity capital for the scale and nature of our operations and risk.

As at 31 December 2016, adjusting to include the payment of the interim dividend we had excess qualifying regulatory capital of £13.1m over the requirement set by our ICAAP.

Earnings per share (EPS)

Pence per share	Unaudited six months ended 31 December 2016	Unaudited six months ended 31 December 2015	Year ended 30 June 2016
Statutory basic EPS	**7.41**	3.25	7.15
Statutory diluted EPS	**7.40**	3.01	7.15
Adjusted basic EPS	**9.26**	5.98	11.62
Adjusted diluted EPS	**9.25**	5.55	11.62

The diluted EPS calculation includes the dilutive effect of shares that would be issued under the EPSP as measured at the balance sheet date. These shares would be issued in 2018 (subject to a one year lock-up), if the award conditions are met. It also includes shares issuable under the Group's save-as-you-earn scheme. The basic EPS represents the earnings per share to the existing shareholders that will accrue during the EPSP vesting period on an undiluted basis. PSP awards currently in place are not intended to be dilutive to shareholders.

Dividends

The Board of Directors have declared an interim dividend of 5.6 pence per share, of which 1.4 pence is a special dividend and relates to net performance fees.

The interim dividend represents 60% of the adjusted underlying profit after tax, with a special component representing 60% of the net performance fee profit after tax for the period.

The dividend will be paid on 31 March 2017 to shareholders on the register as at 10 March 2017. The ex-dividend date is 9 March 2017.

Kevin Hayes

Chief Financial Officer

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual Report for the year ended 30 June 2016, except for as noted below. At that date, the most significant risks were identified as being:

- The loss of, or inability to train or recruit, key personnel could have a material adverse effect on the Group's business;
- The risk of loss resulting from inadequate or failed internal processes, people, systems and controls (including from outsource providers) or from external events;
- The risk of critical systems or connectivity failures leading to an inability of the Group to operate for a period of time. This could lead to trading losses, as well as client losses and reputational damage;
- Significant withdrawals of AUM/NUM at short notice and loss of advisory mandates could have an impact on management and advisory fees; and
- Sustained underperformance across a range of the Group's products and strategies, or poor general performance in markets could result in reduced management and performance fee income.

The Directors believe that the following risk has become more significant during the period:

- The risk of regulatory changes leading to increased levels of regulatory capital or costs of compliance.

The Directors do not expect the principal risks and uncertainties to change for the remainder of the financial year.

A more detailed explanation of the risks relevant to the Group is on pages 28-31 of the Group's 2016 Annual Report which is available at www.riverandmercantile.com.

Responsibility statement

The Directors confirm to the best of their knowledge:

- The unaudited condensed consolidated set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- The interim management report includes a fair review of the information required by sections 4.2.7R and 4.2.8R of the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

By order of the Board

Mike Faulkner	**Kevin Hayes**
Chief Executive Officer	Chief Financial Officer

A copy of this interim report will be posted on the Company's website on the date of this statement at www.riverandmercantile.com

Independent auditor's review report

Introduction

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the six months ended 31 December 2016 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cash flows and condensed consolidated statement of changes in shareholder's equity; and the related notes.

We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim financial report is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, ''Interim Financial Reporting'', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting its responsibilities in respect of interim financial reporting in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and

Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 December 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

BDO LLP
Chartered Accountants
London
United Kingdom
24 February 2017

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

Condensed consolidated interim financial statements

This Interim Report should be read in conjunction with the Annual Report of the Group for the year ended 30 June 2016.

Condensed consolidated income statement

	Note	**Unaudited 6 months ended 31 December 2016 £'000**	Unaudited 6 months ended 31 December 2015 £'000
Revenue:			
Net management fees	4	**21,410**	17,877
Net advisory fees	4	**5,235**	4,297
Performance fees	4	**4,747**	1,187
Other income		**-**	2
Total revenue		**31,392**	23,363
Operating expenses	5	**5,655**	4,799
Depreciation		**67**	49
Amortisation		**2,165**	2,165
Total operating expenses		**7,887**	7,013
Remuneration and benefits			
Fixed remuneration and benefits		**9,792**	9,330
Variable remuneration		**6,995**	3,087
		16,787	12,417
EPSP Costs	6	**513**	643
Total remuneration and benefits		**17,300**	13,060
Total administrative expenses		**25,187**	20,073
Gain on disposal of available-for-sale investments	7	**793**	-
Profit before interest and tax		**6,998**	3,290
Finance income		**25**	23
Finance expense		**(4)**	(1)
Profit before tax		**7,019**	3,312
Tax charge			
Current tax	9	**1,986**	1,249
Deferred tax	9	**(1,030)**	(604)
		956	645
Profit after tax for the period attributable to owners of the Parent		**6,063**	2,667
Earnings per share			
Basic (pence)	11	**7.41**	3.25
Diluted (pence)	11	**7.40**	3.01

Condensed consolidated statement of comprehensive income

	Note	**Unaudited 6 months ended 31 December 2016 £'000**	Unaudited 6 months ended 31 December 2015 £'000
Profit for the period		**6,063**	2,667
Items that may be subsequently reclassified to profit or loss:			
Change in value of available-for-sale investments	7	**444**	(10)
Tax on change in value of available-for-sale investments	9	**(89)**	-
Gain on disposal of available-for-sale investments	7	**(793)**	-
Tax on gain on disposal of available-for-sale investment	9	**159**	-
Foreign currency translation differences		**210**	7
Other comprehensive income		**(69)**	(3)
Total comprehensive income for the period attributable to owners of the Parent		**5,994**	2,664

The notes to the condensed consolidated interim financial statements form part of and should be read in conjunction with these financial statements.

Condensed consolidated statement of financial position

	Note	**Unaudited 31 December 2016 £'000**	Audited 30 June 2016 £'000
Assets			
Cash and cash equivalents		**20,203**	14,147
Investment management balances		**18,448**	15,448
Available-for-sale investments	7	**11**	5,350
Fee receivables		**8,108**	6,488
Other receivables		**14,806**	10,766
Deferred tax asset	9	**1,289**	609
Property, plant and equipment		**312**	377
Intangible assets		**39,610**	41,552
Total assets		**102,787**	94,737
Liabilities			
Investment management balances		**18,571**	14,655
Current tax liabilities		**2,022**	1,168
Trade and other payables		**12,036**	9,831
Deferred tax liability	9	**4,384**	5,347
Total liabilities		**37,013**	31,001
Net Assets		**65,774**	63,736
Equity			
Share capital		**246**	246
Share premium		**14,688**	14,688
Merger reserve		**44,433**	44,433
Other reserves	8	**5,051**	5,120
Purchase of own shares by EBT	12	**(1,614)**	(1,283)
Retained earnings		**2,970**	532
Equity attributable to owners of the Parent		**65,774**	63,736

The notes to the condensed consolidated interim financial statements form part of and should be read in conjunction with these financial statements.

The financial statements were approved by the Board and authorised for issue on 24 February 2017.

Mike Faulkner — Chief Executive Officer

Kevin Hayes — Chief Financial Officer

Condensed consolidated statement of cash flows

	Note	**Unaudited 6 months ended 31 December 2016 £'000**	Unaudited 6 months ended 31 December 2015 £'000
Cash flow from operating activities			
Profit before interest and tax		**6,998**	3,290
Adjustments for:			
Amortisation of intangible assets		**2,165**	2,165
Depreciation of property, plant and equipment		**67**	49
Share-based payment expense	6	**637**	250
Gain on disposal of property, plant and equipment		**-**	(24)
Gain on disposal of available-for-sale investments	7	**(793)**	-
Disposal of goodwill		**-**	169
Foreign exchange losses on operating activities		**71**	6
Operating cash flow before movement in working capital		**9,145**	5,905
(Increase) / decrease in operating assets		**(9,315)**	4,015
Increase / (decrease) in operating liabilities		**6,771**	(6,893)
Cash generated from operations		**6,601**	3,027
Tax paid		**(1,127)**	(1,608)
Net cash generated from operations		**5,474**	1,419
Cash flow from investing activities			
Purchase of intangible assets		**(80)**	-
Interest received		**16**	23
Investment in available-for-sale investments		**(10)**	
Proceeds from disposal of available-for-sale investments	7	**5,793**	-
Net cash generated from investing activities		**5,719**	23
Cash flow from financing activities			
Interest paid		**-**	(1)
Dividends paid	10	**(4,805)**	(6,896)
Purchase of own shares	12	**(331)**	-
Net cash used in financing activities		**(5,136)**	(6,897)
Net increase / (decrease) in cash and cash equivalents		**6,057**	(5,455)
Cash and cash equivalents at beginning of period		**14,147**	20,227
Foreign exchange movement		**(1)**	2
Cash and cash equivalents at end of period		**20,203**	14,774

The notes to the condensed consolidated interim financial statements form part of and should be read in conjunction with these financial statements.

Condensed consolidated statement of changes in shareholders' equity

	Share Capital £'000	Share premium £'000	Available-for-sale reserve £'000	Foreign exchange reserve £'000	Merger reserve £'000	Capital redemption reserve £'000	Capital contribution reserve £'000	Purchase of own shares by EBT £'000	Retained earnings £'000	Total £'000
Audited balance as at 30 June 2016	**246**	**14,688**	**280**	**314**	**44,433**	**84**	**4,442**	**(1,283)**	**532**	**63,736**
Comprehensive income for the period:										
Profit for the period	-	-	-	-	-	-	-	-	6,063	6,063
Other comprehensive income	-	-	(279)	210	-	-	-	-	-	(69)
Total Comprehensive income	-	-	**(279)**	**210**	-	-	-	-	**6,063**	**5,994**
Transactions with owners:										
Dividends	-	-	-	-	-	-	-	-	(4,805)	(4,805)
Share-based payment expense	-	-	-	-	-	-	-	-	637	637
Deferred tax credit on share-based payment expense	-	-	-	-	-	-	-	-	543	543
Purchase of own shares by EBT	-	-	-	-	-	-	-	(331)	-	(331)
Total transactions with owners:	-	-	-	-	-	-	-	(331)	(3,625)	(3,956)
Unaudited balance as at 31 December 2016	**246**	**14,688**	**1**	**524**	**44,433**	**84**	**4,442**	**(1,614)**	**2,970**	**65,774**
Audited balance as at 30 June 2015	246	14,688	124	(6)	44,433	84	4,442	-	3,843	67,854
Comprehensive income for the period:										
Profit for the period	-	-	-	-	-	-	-	-	2,667	2,667
Other comprehensive income	-	-	(10)	7	-	-	-	-	-	(3)
Total Comprehensive income	-	-	(10)	7	-	-	-	-	2,667	2,664
Transactions with owners:										
Dividends	-	-	-	-	-	-	-	-	(6,896)	(6,896)
Share-based payment expense	-	-	-	-	-	-	-	-	250	250
Deferred tax credit on share-based payment expense	-	-	-	-	-	-	-	-	1,042	1,042
Total transactions with owners:	-	-	-	-	-	-	-	-	(5,604)	(5,604)
Unaudited balance as at 31 December 2015	246	14,688	114	1	44,433	84	4,442	-	906	64,914

The notes to the condensed consolidated interim financial statements form part of and should be read in conjunction with these financial statements.

Notes to the condensed consolidated interim financial statements

1. General information

River and Mercantile Group PLC (the Company), is a company domiciled in England. The condensed consolidated interim financial statements of the Company for the six months ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as “the Group").

2. Accounting policies

Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", as adopted by the European Union. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Group’s 2016 Annual Report. The financial information for the six months ended 31 December 2016 and 31 December 2015 does not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act 2006 and is unaudited.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The Independent Auditors' Report on that Annual Report and financial statements for the year ended 30 June 2016 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the Group's latest annual audited financial statements.

Going concern

The Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

In reaching this conclusion the Board has considered budgeted and projected results of the business including a 2017 budget and three year forecast for the Group with several scenarios, projected cash flow and regulatory capital requirements, and the risks that could impact on the Group’s liquidity and solvency over the next 12 months from the date of approval of the financial statements. Additionally, the capital adequacy of the Group in base and stress scenarios is tested as part of the ICAAP and viability statement process.

Accordingly, these condensed financial statements have been prepared on a going concern basis using the historical cost convention, except for the measurement of certain financial instruments that are held at fair value.Significant judgements and estimates

Some of the significant accounting policies require management to make difficult, subjective or complex judgements or estimates. The policies which management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial statements are:

- Consideration of whether previously recorded goodwill is impaired, including the goodwill arising from the acquisition of RAMAM;
- The revenue recognition of management, advisory and performance fees; and
- Share-based payment expense and related national insurance liabilities for awards under performance share plans.

There have been no changes in estimates reported in prior periods.

3. Seasonality of revenue

The Group earns net management fees evenly throughout the year based on the AUM/NUM during the month or quarter.

The retainer element of net advisory fees are generally earned evenly throughout the year, however implementation and project fees are earned as specific projects are undertaken.

Performance fees are earned on crystallisation dates, which vary throughout the year but for the Equity Solutions division are generally on a calendar year basis.

4. Divisional and geographical reporting

The business operates through four divisions, however these are not considered as segments for the purposes of IFRS 8. Despite this, the Directors feel that it is useful to the understanding of the period under review to include certain information.

The net revenue for the six months ended 31 December 2016 and 31 December 2015 together with the period end AUM and NUM reflect the measure of the products' activities in the respective divisions.

	Unaudited December 2016		Unaudited December 2015	
	Net revenue £'000	**Fee earning AUM/NUM £'m**	Net revenue £'000	Fee earning AUM/NUM £'m
Fiduciary Management	**8,519**	**10,121**	6,736	7,504
Derivative Solutions	**5,343**	**15,693**	4,596	12,666
Equity Solutions	**7,548**	**2,934**	6,545	2,303
Advisory	**5,235**	**N/A**	4,297	N/A
Total	**26,645**	**28,748**	22,174	22,473

Performance fees of £4.4m (December 2015: £1.2m) were earned by the Fiduciary Management division and £0.3m (December 2015: £nil) was earned by the Equity Solutions division.

No single client accounts for more than 10% of the revenue or profits of the Group (December 2015: none).

On a geographic basis the majority of the revenues are earned in the UK. The Group has an advisory and fiduciary management business in the US and net revenue earned in the US for the six months ended 31

December 2016 was £2.5m (December 2015: £2.1m). The AUM of the US business was £641m (December 2015: £550m).

Non-current assets held by the US business include £1.6m (December 2015: £1.2m) of intangible assets.

5. Operating Expenses

	Unaudited 6 months ended 31 December 2016 £'000	Unaudited 6 months ended 31 December 2015 £'000
Marketing	**396**	370
Travel and entertainment	**222**	200
Office facilities	**1,026**	918
Technology and communications	**2,224**	1,299
Professional fees	**652**	829
Governance expenses	**254**	376
Fund administration	**275**	283
Other	**606**	524
Operating expenses	**5,655**	4,799

Under the Transitional Services Agreement (TSA) with Punter Southall, the Group was provided with IT infrastructure as a service. This agreement ends by June 2017 at the latest and the Group is taking the opportunity in the transition to a new provider to revisit the IT architecture including disaster recovery, to ensure that the Group maintains best-in class infrastructure for optimal performance and resilience of Group systems.

This change in infrastructure is expected to lead to an increase in annual technology costs of £0.3-£0.4m per annum, as well as one-off implementation costs in 2017 of £1.1m. £0.5m of these one-off costs were incurred as at 31 December 2016.

6. Share based payments

Executive Performance Share Plan

An Executive Performance Share Plan (EPSP) has been established to grant the Executive Directors performance shares. Two classes of awards exist: Performance Condition A Awards and Performance Condition B Awards and are conditional upon receiving a Total Shareholder Return (TSR) over a four year period ending 30 June 2018. Neither share class is eligible for dividends during the vesting period. Full details of the Plan can be found in the Group's 2016 Annual Report, but a summary is provided in the below table:

	Condition A Awards	**Condition B Awards**
Number of shares granted	4,843,626	2,462,860
Exercise price per share	£0.003	£0.003

Total Shareholder Return (TSR) over 4 year period	Minimum 12%	Minimum 25%
TSR at which 100% of shares vest after the 4 year period	24%	30%
Employer's National Insurance charge for the period	£287,000	£nil
IFRS 2 charge for the period	£184,000	£42,000
Shares expected to vest	2,560,000 (53%)	Nil

Employee Share Plans

The Group has established Performance Share Plans (PSP) to allow the grant of nil cost options, contingent share awards or forfeitable share awards. The Directors have stated an intention that vested share awards under the PSP would not be dilutive to shareholders, as the shares will be purchased by the Group's Employee Benefit Trust (EBT).

The directors have granted awards to staff in respect of the years ended 30 June 2015 and 30 June 2016 which vest on 30 June 2017, 2018 or 2019 depending on the award. Full details of the awards can be found in the Group's 2016 Annual Report.

The fair value of the awards has been estimated using a combination of Monte Carlo simulation and Black-Scholes modelling The charge recognised in respect of PSP awards in the period ended 31 December 2016 is £360,000 (2015: £40,000). Additionally a charge of £88,000 (2015: £23,000) for National Insurance on vesting has been accrued.

	Share Plan 1	Share Plan 2	Share Plan 3	Share Plan 4	Share Plan 5	Share Plan 6
Year awarded	2015	2015	2015	2016	2016	2016
Number of shares granted '000s	620	375	48	354	956	265
Exercise price per share	£Nil	£Nil	£Nil	£Nil	£Nil	£Nil
12% Compounded TSR hurdle over vesting period	Yes	Yes	No	No	Yes	Yes
Continued employment required	Yes	Yes	Yes	Yes	Yes	Yes
Other key terms	Achievement of specified divisional AUM/NUM and revenue targets within a range	None	None	None	Achievement of specified divisional revenue targets within a range.	12% TSR achieved by 30 June 2019, subject to up to two year extension
Vesting profile per individual	Straight-line between min and max divisional AUM/NUM and revenue targets	All or nothing	All or nothing	All or nothing	Awards vest each year based on % of target achieved	All or nothing
IFRS 2 charge for the period £'000	**15**	**10**	**10**	**90**	**170**	**65**
Employer's National Insurance for the period £'000	**11**	**7**	**3**	**17**	**36**	**14**

The charge for the period also includes £51,000 for the Group's Save as You Earn Scheme (December 2015: £nil).

7. Available-for-sale investments

In December 2016, the Group redeemed its £5.0m investment of seed capital in the River and Mercantile Dynamic Asset Allocation Fund (the 'DAA Fund'). The investment had been made in 2014 and was recognised as an available-for-sale financial asset up to the point of sale, with unrealised fair value movements recognised in other comprehensive income. The fair value of the Group's investment in the DAA fund is derived from the fair value of the underlying investments, some of which are not traded in an active market and therefore the investment is classified as Level 2 under IFRS 13 Fair Value Measurement. The DAA fund is an unlisted equity vehicle based in the UK.

A gain of £793,000 was realised on redemption which is shown in the income statement. The movement in the carrying value of the available-for-sale investment is analysed below:

	Unaudited 31 December 2016 £'000	Audited 30 June 2016 £'000
At beginning of period	**5,350**	5,155
Additions	**10**	-
Movement in fair value	**444**	195
Disposals	**(5,793)**	-
At end of period	**11**	**5,350**

8. Other reserves

	Unaudited 31 December 2016 £'000	Audited 30 June 2016 £'000
Available-for-sale reserve	**1**	280
Foreign exchange reserve	**524**	314
Capital contribution reserve	**4,442**	4,442
Capital redemption reserve	**84**	84
Other reserves	**5,051**	5,120

9. Current and deferred tax

The most significant deferred tax items are the deferred tax liability established against the IMA intangible asset arising from the acquisition of RAMAM and the deferred tax asset recognised in respect of the EPSP and PSP share-based payment expenses. The amortisation of the IMA intangible asset is not deductible for corporation tax purposes therefore the deferred tax liability is released into the income statement to match the amortisation of the IMA intangible. At each reporting date the Group estimates the corporation tax deduction that might be available on the vesting of EPSP and PSP shares and the corresponding adjustment to deferred tax asset is recognised in the income statement and equity.

During the period, the main rate of corporation tax was reduced to 17% from 1 April 2020. This change has been reflected in the carrying value of deferred tax balances.

	Unaudited 6 months ended 31 December 2016 £'000	Unaudited 6 months ended 31 December 2015 £'000
Current tax	**1,986**	1,249
Deferred tax	**(1,030)**	(604)
Total tax charge	**956**	645

The tax assessed for the period is lower (December 2015: lower) than the average standard rate of corporation tax in the UK. The differences are explained below:

	Unaudited 6 months ended 31 December 2016 £'000	Unaudited 6 months ended 31 December 2015 £'000
Profit before tax	**7,019**	3,312
Profit before tax multiplied by the average rate of corporation tax in the UK of 19.75% (December 2015: 20%)	**1,386**	662
Effects of:		
Expenses not deductible for tax purposes	**682**	587
Amortisation of RAMAM IMAs (including change in future tax rates)	**(893)**	(433)
Income not subject to tax	**(88)**	-
Other timing differences	**(131)**	(171)
Total tax charge	**956**	645

The analysis of deferred tax assets and liabilities is as follows:

	Unaudited 31 December 2016 £'000	Audited 30 June 2016 £'000
Deferred tax liabilities		
At beginning of period	**5,347**	6,174
Credit to the income statement:		
– amortisation of intangibles	**(433)**	(866)
– adjustment to deferred tax on intangibles due to tax rates	**(460)**	-
Credit/(debit) to equity:		
– movement on fair value of available-for-sale investments	**89**	39
– recycling of deferred tax on disposal of available-for-sale investments	**(159)**	-
At end of period	**4,384**	5,347

	Unaudited 31 December 2016 £'000	Audited 30 June 2016 £'000
Deferred tax assets		
At beginning of period	**609**	528
(Charge)/credit to the income statement:		
– accelerated capital allowances	**6**	(12)
– deductible temporary differences	**(7)**	15
– share based payment expense	**138**	171
Credit to equity - share based payment expense	**543**	(93)
At end of period	**1,289**	609

10. Dividends

During the period, the following dividends were paid:

	Unaudited 31 December 2016 £'000	Audited 30 June 2016 £'000
2015 second interim (4.6 pence per share)	**-**	3,776
2015 final (3.8 pence per share)	**-**	3,120
2016 first interim (3.8 pence per share)	**-**	2,955
2016 interim (4.6 pence per share)	**2,771**	-
2016 final (2.5 pence per share)	**2,034**	-
	4,805	9,851

11. Earnings per share

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares of the Company in issue during the period. The shares held by the Group's EBT are deducted in this calculation. As at 31 December 2016, the EBT held 748,000 shares (31 December 2015: none).

To the extent that any of the EPSP performance shares (note 6) vest they will have a dilutive effect on the equity holders of the Company. The potential dilution effect of the EPSP performance shares will be considered in the calculation of diluted earnings per shares.

The compound return to shareholders is based on share price and dividends received by shareholders from the date of grant until the reporting date and will be compared against the respective performance criteria of the performance shares to determine if the shares are dilutive as of the reporting date.

Based on the Group's share price at 31 December 2016 and dividends paid, none of the EPSP performance shares would have met the vesting criteria and were therefore not considered dilutive for purposes of calculating diluted earnings per share (31 December 2015: all).

Additionally, the Group operates a save-as-you-earn scheme for employees. The potential dilution effect of this scheme will be considered in the calculation of diluted earnings per share.

Earnings per share	**Unaudited 6 months ended 31 December 2016**	Unaudited 6 months ended 31 December 2015
Profit attributable to owners of the Parent (£'000)	**6,063**	2,667
Weighted average number of shares in issue ('000)	**81,857**	82,095
Weighted average number of diluted shares ('000)	**81,920**	88,600
Earnings per share (pence)		
Basic	**7.41**	3.25
Diluted	**7.40**	3.01

Adjusted profit and adjusted earnings per share

Adjusted profit represents statutory profit adjusted to add back the amortisation of intangible assets and EPSP costs, the non-recurring costs associated with the implementation of the Group's new IT infrastructure and the gain on disposal of the Group's seed positions.

	Unaudited 6 months ended 31 December 2016 £'000	Unaudited 6 months ended 31 December 2015 £'000
Profit before tax	**7,019**	3,312
Adjustments:		
Amortisation of intangible assets	**2,165**	2,165
Expenses associated with IT Migration	**548**	-
Gain associated with DAA investment	**(793)**	-
EPSP costs	**513**	643
Adjusted profit before tax	**9,452**	6,120
Adjusted tax charge	**(1,876)**	(1,207)
Adjusted profit after tax	**7,576**	4,913
Adjusted EPS:		
Basic (pence)	**9.26**	5.98
Diluted (pence)	**9.25**	5.55

Adjusted underlying profit and adjusted underlying earnings per share

Adjusted underlying pre-tax margin represents net management and advisory revenue less the related expense base including remuneration, excluding the non-recurring costs associated with the implementation of the Group's new IT infrastructure and the gain on disposal of the Group's seed positions, divided by net management and advisory revenues.

	Unaudited 6 months ended 31 December 2016 £'000	Unaudited 6 months ended 31 December 2015 £'000
Performance fees	**4,747**	1,187
Associated remuneration expense at 50%	**(2,374)**	(594)
Net performance fee profit before tax	**2,373**	**593**
Adjusted profit before tax	**9,452**	6,120
Less:		
Net performance fee profit before tax	**(2,373)**	(593)
Other income	**-**	(2)
Adjusted underlying profit before tax	**7,079**	**5,525**
Adjusted underlying tax charge	**(1,407)**	(1,088)
Adjusted underlying profit after tax	**5,672**	**4,437**
Adjusted underlying EPS		
Basic (pence)	**6.93**	5.40
Diluted (pence)	**6.92**	5.01
Adjusted underlying pre-tax margin	**27%**	25%

Reconciliation between weighted average shares in issue

	Unaudited 6 months ended 31 December 2016 '000	Unaudited 6 months ended 31 December 2015 '000
Weighted average number of shares in issue - basic	**81,857**	82,095
Dilutive effect of shares granted under save-as-you-earn	**63**	-
Dilutive effect of shares granted under EPSP	**-**	6,505
Weighted average number of shares in issue - diluted	**81,920**	88,600

As at 31 December 2016, there were no shares which were antidilutive during the six months ended 31 December 2016 but which may be dilutive in future periods (31 December 2015: none).

12. Share capital

The Company had the following share capital at the reporting dates.

	Unaudited 31 December 2016		Audited 30 June 2016	
	Number	**£**	Number	£
Allotted, called up and fully paid:				
Ordinary shares of £0.003	**82,095,346**	**246,286**	82,095,346	246,286

The ordinary shares carry the right to vote and rank pari passu for dividends.

The Group's EBT has purchased shares in relation to non-dilutive share awards (note 6). The shares held are measured at cost. During the six months ended 31 December 2016, the EBT purchased 185,000 shares at a cost of £331,000, taking the total share purchased as at 31 December 2016 to 748,000 at a cost of £1,614,000, compared to awards granted to date over 1.8m shares.

13. Contingent liabilities

The Directors were not aware of any contingent liabilities of the Group at the reporting date (December 2015: none).

14. Related party transactions

Key management personnel, Punter Southall Group ("PSG"), and Pacific Investments Management Limited, its subsidiary undertakings and controlling shareholder and Sir John Beckwith (together "Pacific Investments") are considered related parties. There have been no changes to the related party transactions or relationships described in the last Annual Report that could have a material effect on the financial performance or position of the Group in the six months ended 31 December 2016.

Significant transactions with Pacific Investments

There have been no significant transactions with Pacific Investments during the period (December 2015: none).

Significant transactions with PSG

	Transaction amount	
	Unaudited 31 December 2016 £'000	Unaudited 31 December 2015 £'000
Transactions – expense/(income)		
Administrative recharges from PSG	**838**	693
Advisory fee revenue share	**-**	(68)

	Audited 31 December 2016 £'000	Audited 30 June 2016 £'000
Balances – due to/(from) related party		
Administrative recharges from PSG	**352**	(35)
Advisory fee revenue share	**-**	114

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the Directors of the Company.

	Unaudited 6 months ended 31 December 2016 £'000	Unaudited 6 months ended 31 December 2015 £'000
Short-term employee benefits	**1,976**	3,120
Post-employment benefits	**58**	-
Share-based payment expense	**338**	235
Total	**2,372**	3,355

15. Financial instruments

Categories of financial instruments

Financial instruments held by the Group are split into the following categories:

	Unaudited 31 December 2016 £'000	Audited 30 June 2016 £'000
Financial Assets		
Cash and cash equivalents	**20,203**	14,147
Investment management balances	**18,448**	15,448
Fee receivables	**8,108**	6,488
Other receivables	**14,038**	9,958
Total loans and receivables at amortised cost	**60,797**	46,041
Available-for-sale investments	**11**	5,350
Total available-for-sale assets at fair value	**11**	5,350
Total financial assets	**60,808**	51,391

	Unaudited 31 December 2016 £'000	Audited 30 June 2016 £'000
Financial Liabilities		
Investment management balances	**18,571**	14,655
Trade and other payables	**9,016**	8,933
Total other liabilities at amortised cost	**27,587**	23,588
Total financial liabilities	**27,587**	23,588

The Directors consider the carrying amounts of the loan and receivables financial assets and financial liabilities carried at amortised cost to be a reasonable approximation to their fair values based upon their nature and the relatively short period of time between the origination of the instruments and their expected realisation.

There have been no transfers of financial instruments between levels during the period (December 2015: none).

16. Events after the reporting period

The Directors have declared an interim dividend of 5.6 pence per share, of which 1.4 pence is a special dividend and relates to net performance fees. The dividend payable is expected to be £4.5m.