

River and Mercantile UK Micro Cap Investment Company Limited

Quarter 1, 2016

RIVER AND MERCANTILE
ASSET MANAGEMENT

Review of Investment Performance

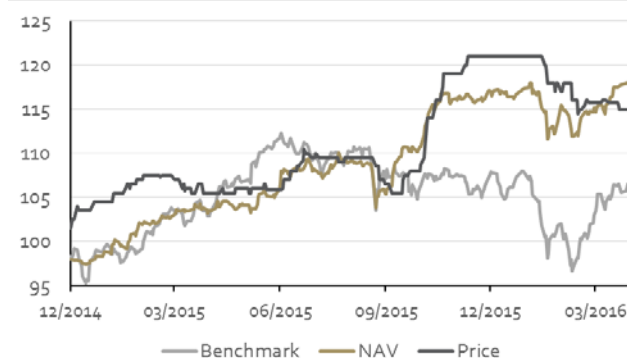
The River and Mercantile UK Micro Cap Investment Company demonstrated that it is by no means a given that during heightened periods of overall market volatility shares of micro cap companies should suffer proportionately more. By the middle of February, UK markets were down 10-11%, whereas the NAV fell less than 5%. By the end of the quarter, performance was positive with NAV rising +0.4%, ahead of the benchmark which returned -1.3%. The main frustration, therefore, is that the share price, having tracked the NAV lower, failed to rebound in lock-step with the recovery of the NAV, repeating the pattern seen last September. Looking longer term, the share price is up +15% since IPO, whilst NAV hit new highs to record +20.3% since IPO to 117.85p compared to the benchmark rising +8.7% over the same period.

Despite the difficult quarter for markets there were some very strong individual performances in the portfolio. The leading contributor was **IS Solutions** which soared +48.3% after yet another update that revealed trading well ahead of expectations. Due to change its name to **D4T4 Solutions**, the firm has been transformed into a Data Analytics specialist via the acquisition of **Cerberus**. Specialising in analysing the minutiae of customer interaction with websites, the patented and potentially world leading capability is already demonstrating that clients from many industries are willing to procure the firm's solutions. **IS Solutions** is an example of world leading technology available in the UK Micro Cap, and **Blue Prism Group** is even more so. This was an extremely popular IPO with an immediate +51.9% return due to the fact that Blue Prism has the leadership position in 'Software Robots'. Advanced artificial intelligence allows a software program to emulate human actions, reducing errors and releasing staff to perform more productive tasks. Whilst early stage, Blue Prism could be at the forefront of a seismic shift in productivity. The ancient industry of gold mining also did well this quarter as the price of gold rallied amidst uncertainty. Tanzanian miner **Shanta Gold** rose +43% as a result.

This quarter also saw two more takeover offers for members of the portfolio with **KBC Advanced Technologies** attracting not one but two suitors. This confirmed once again that, despite providing software to the oil and gas industry, it is the focus on the refining segment which defines the company. The rival bids resulted in a 53.3% rise in the quarter and an exit 151% above the original purchase price just over a year ago. **ISG** also attracted a takeover offer which resulted in an exit, albeit this was much less satisfactory. As noted last quarter, despite the major fit-out business performing very strongly, the minor construction unit continued to produce disappointments, which naturally ebbed confidence in the management team. The largest shareholder, Cathexis, shared this view, but offered far below fair value to acquire control of the business. Unfortunately, the risks that come with being a minority shareholder outweighed the opportunity to seek a fairer value and so the shares were sold at the level of the upwardly revised offer for a +19.6% gain, and a small premium to the original entry price.

Naturally not all was smooth running this quarter. The largest detractor was last quarter's biggest contributor – **Trakm8 Holdings** which gave back -27.7% after a +73% rise last quarter. It seems that stellar performance attracted unwanted attention with some specific negative commentary, mainly focused on slim historic cash generation. Cash generation is important, not least because it can be reinvested into supporting very strong growth into the burgeoning telematics industry, with that investment set to reap very substantial cash flows as Trakm8 services existing and prospective customers with its comprehensive suite of product and software offerings. The 50% peak to trough move seems excessive. **dotDigital Group** also partially reversed strong gains last quarter with a -15.1% fall, despite sustaining strong growth. Finally, designer of fire alarms firm **Sprue Aegis** fell -27.5%, suffering from a hangover after a very strong year in 2015. Adoption of fire alarms in France led to meteoric growth, albeit there were question marks with regards management given the degree to which the firm suffered from currency moves. With the euro moving strongly in the group's favour, the position was given the benefit of the doubt given the group possesses particularly valuable technology for carbon monoxide detection.

	3 months	2016 YTD	Since Inception
NAV	0.4%	0.4%	20.3%
Share Price	-5.0%	-5.0%	15.0%
Benchmark*	-1.3%	-1.3%	8.7%



Source: River and Mercantile Asset Management LLP, BNP Paribas, Bloomberg
Note: NAV data is based on daily unaudited estimations

Top 10 Contributors to Return

	Contribution to Return
IS Solutions	1.67%
KBC Advanced Technologies	1.60%
Blue Prism	0.76%
Shanta Gold	0.58%
Quarto Group	0.51%
Taptica	0.39%
ScS Group	0.38%
ISG	0.37%
MaxCyte	0.28%
Quixant	0.27%

Source: FactSet, held stocks contribution

Top 10 Holdings

	Weight (%)
IS Solutions	4.8
KBC Advanced Technologies	4.4
Taptica	3.9
Trakm8	3.7
Ideagen	3.5
WYG	3.5
Quarto Group	3.4
Allergy Therapeutics	3.1
Sigma Capital Group	3.1
dotDigital Group	2.9

Source: River and Mercantile Asset Management LLP



Fund Manager:
Philip Rodrigo



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Investment Objective

The Company will aim to achieve long-term capital growth from investment in a diversified portfolio of UK micro cap companies, typically comprising companies with a free float market capitalisation of less than £100 million at the time of purchase

Portfolio Information

Portfolio Manager	Philip Rodrgis
Inception date	2 December 2014
*Benchmark Index	Numis Sm Co + AIM (ex ICs)
Total size	£83.5m
No. of Holdings	45

Codes

Sedol	BRGCGKo
ISIN	GGooBRGCGKo6
Bloomberg	RMMC:LN

Charges

AMC	0.75%
Performance fee	15% of outperformance

Financial Calendar

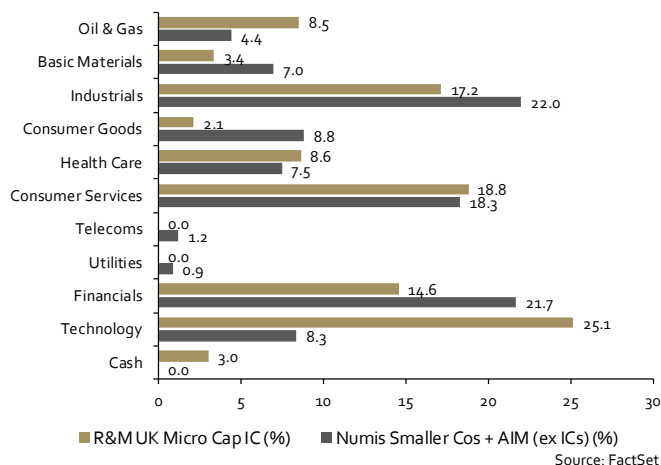
Year end	30-Sep
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For more information see our website
microcap.riverandmercantile.com

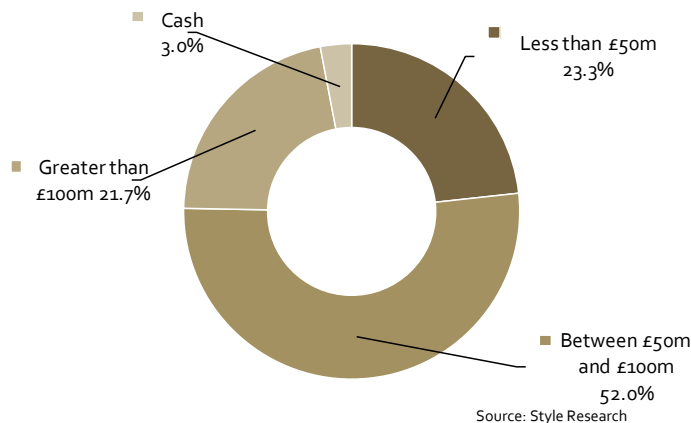
Market Review and Outlook

It would have been hard to imagine half way through the first quarter of 2016 that both the FTSE 100 and FTSE Small Cap would record a fall of just 1% whilst Brent Oil rose 6%. 2016 started with a bang with markets sliding globally amidst escalating volatility, only to suddenly reverse and achieve an eerie calm by the end of March. A strange characteristic of one of the worst ever starts to the year was how quickly concerns shifted. The January slump commenced with sharp declines in China on a resumption of ill-handled interventions. Meanwhile commodities lunged downwards, leading to question marks over China-led global economic growth. Corporate debt, in particular that owed by oil and mining firms, plunged as markets priced in the reality that more defaults are likely. This knocked on to concerns about insurance firm balance sheets, and the stability of certain banks such as Deutsche Bank. Perhaps most worrying was the market's realisation that negative interest rates may be pushing 'unconventional monetary policy' too far – with the Japanese move backfiring spectacularly and fears mounting for the European bank system. A sudden reversal by the US Fed following their December rate rise calmed matters, but is unlikely to have permanently dampened this new era of heightened volatility. Volatility is the friend of the active investor, especially as that allows investments in high quality growth companies which are particularly attractive now that the UK and US have reached a steadier state of full employment.

Allocation by Sector



Allocation by Market Capitalisation



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