

Client focused Outcome orientated

River and Mercantile is a client focused, outcome orientated advisory and investment solutions business with a broad range of services, from consulting and advisory to fully-delegated fiduciary and fund management.

River and Mercantile services a client base, predominantly in the UK, which comprises institutional pension schemes, wholesale financial intermediaries, insurance companies, state funds and charitable institutions.

River and Mercantile is focused on creating investment solutions for its clients across its core markets:

- UK DB pension schemes;
- UK DC pension schemes;
- insurance;
- wholesale financial intermediaries;
- US pensions (DB and DC); and
- strategic relationships.

Forward looking statements

This Annual Report contains forward looking statements with respect to the financial conditions, results and business of the Group. By their nature forward looking statements relate to events and circumstances that could occur in the future and therefore involve the risk and uncertainty that the Group's actual results may differ materially from the results expressed or implied in the forward looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Strategic report

- 01 Highlights 2016
- 02 Chairman's statement
- 03 Strategy and progress against objectives
- 04 Business model
- 06 Business model in action
- 08 Chief Executive's review
- 14 Fiduciary management
- 18 Financial review
- 28 Principal risks
- 32 Risk management
- 34 Corporate responsibility

Governance


- 36 Board of Directors
- 38 Corporate governance report
- 40 Investment Committee report
- 41 Audit and Risk Committee report
- 43 Remuneration Committee report
- 45 Remuneration policy
- 46 Annual report on remuneration
- 51 Directors' report
- 53 Directors' responsibilities
- 54 Independent auditor's report

Financials

- 58 Consolidated income statement
- 58 Consolidated statement of comprehensive income
- 59 Consolidated statement of financial position
- 60 Consolidated statement of cash flows
- 61 Consolidated statement of changes in shareholders' equity
- 62 Notes to the consolidated financial statements
- 83 Company statement of financial position
- 84 Company statement of cash flows
- 85 Company statement of changes in shareholders' equity
- 86 Notes to the Company financial statements
- 91 Glossary
- IBC Shareholder information and advisors

Highlights 2016

Strong AUM/NUM growth to drive management fees

 For full historic key performance indicators go to page 18

Mandated AUM/NUM

£25.1BN

Performance fees

£1.5M

Growth in mandated AUM/NUM

17%

Profit after tax

£5.9M

Regretted client attrition¹

3.5%

Adjusted underlying pre-tax margin

24%

Net management and advisory fees

£45.7M

Total dividend for the year²

9.5 PENCE

1. Regretted client attrition is the opening AUM/NUM of lost clients, divided by total opening AUM/NUM. It excludes clients which have entered the PPF or left due to achieving funding objectives and moving to buy-in or buyout, 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.
2. Including 2.5 pence proposed final dividend.

A complex and dramatic year – we emerge stronger.



Paul Bradshaw
Non-Executive Chairman

The year to 30 June 2016 was challenging for our country, global equity markets, our clients and the investment industry generally. We believe we did a great job for our clients, achieved good growth in assets and acceptable – albeit reduced – profitability. This reduction arose as a result of continued investment in the business in expense and remuneration terms during a period in which advisory revenues and performance fees fell. We see the strength of in-force revenue at the end of the year as providing a solid foundation for 2017.

Statutory profit after tax and adjusted profit after tax was £5.9m and £9.5m respectively, and we have declared a second interim dividend of 3.4 pence per share of which 0.1 pence is a special dividend relating to net performance fees. We have proposed a final dividend for 2016 of 2.5 pence, bringing the total dividends paid, declared and proposed to 9.5 pence per share which represents 80% of the adjusted underlying profit after tax and 100% of the net performance fee profit after tax.

We have continuously emphasised the benefits of our diversified business model to clients and shareholders and 2016 provided good evidence to support us. We saw substantial asset growth, encouragingly from existing mandates, but I would also emphasise a couple of standout organic growth areas.

First, we have seen growing traction for the Global High Alpha offering from Equity Solutions, with more than £350m of sales in the year. Secondly, structured equity sales were £1.2bn, with the knowledge shared between Equities and Derivatives instrumental in our ability to design, implement and win larger and more complex mandates during the year. Both areas continue to enjoy a strong pipeline.

Clearly the past 12 months will be remembered as some of the most 'interesting' in recent memory. We have seen large directional moves in commodities markets, the FTSE 100 as high as 6,796 and as low as 5,536, and of course we have had the Leave vote.

The ability of the business to defend, and even grow, client assets during this period vindicates our business model and underlines its defensive nature. As Mike highlights in his report, Fiduciary Management and Derivatives posted strong investment performance and rebalance gains on the day of Brexit and in June overall, leading to 5% AUM/NUM growth during the month alone. This remarkable result should further solidify our client loyalty, position us well for future opportunities and reduce even further our very low attrition rates.

Whilst these factors led to record management fees, advisory revenues were lower than last year, due to the disposal of the Palisades business in the US, and the level of one-off project revenue in the prior year. Also, the business did not generate performance fees in line with historic levels for reasons Mike explains in his report.

A recent Financial Times headline was 'Fears mount for pensions as gilt yields touch negative territory'. These are truly unprecedented times and it seems to me that the only certainty is that this is a world full of volatility and risk. Our clients who have profited from hedged interest rate positions throughout the year have good cause to be grateful that they didn't go with the consensus view a year ago that 'interest rates can only rise' and surely 2016 must go down as the year when managing risk was pre-eminently highlighted.

Our industry is changing under the combined effects of regulation and market forces. The next year will see further moves and reports from the FCA and we await those with interest, but there is no doubt that market forces are strongly favouring outcome-based asset management strategies at a global level. Although these trends are most apparent currently in the institutional market, it is obvious to me that, particularly with an ageing population, outcome-based investment discipline will dominate retail markets in the future.

We believe we are in a very strong position to benefit from this global trend, but we have to be aware that the competitive landscape will also evolve.

Finally, my thanks go to all our staff. River and Mercantile is a great, exciting employer, but I am conscious also a very demanding one. My thanks too to all my Board colleagues, but particularly to Peter who most ably stepped into my shoes at short notice for three months over Christmas.

Paul Bradshaw
Non-Executive Chairman

Strategy and progress against objectives

Our primary objective is to deliver strong outcomes for clients

Stated outcomes for 2016	Progress	Outcomes for 2017	KPIs
Strong organic growth in Fiduciary Management and Advisory			
<ul style="list-style-type: none"> Continued focus on delivering outcome oriented advice and investment solutions to clients Expand the range of client types to whom we offer solutions 	<ul style="list-style-type: none"> Significant expansion of fiduciary AUM for UK pension clients Strong investment performance achieved across client types Implementation of our first fiduciary mandate for an insurance client 	<ul style="list-style-type: none"> Continued growth in our advisory and fiduciary capabilities and client base within UK pensions Further development of fiduciary capabilities for insurance clients Progressing implementation of new investment strategy approach for advisory mandates 	1,2,3
Equity mandates to grow – wholesale and institutional			
<ul style="list-style-type: none"> Continue to build out the global capabilities of the PVT investment processes Grow institutional AUM from mandates in Global High Alpha strategy and available capacity in other strategies Seek opportunities for corporate equity and derivative mandates Continue to broaden distribution through the wholesale intermediated channel 	<ul style="list-style-type: none"> £0.4bn of gross sales in Global High Alpha strategy £0.4bn of gross sales in Equity Solutions – Wholesale (48% of opening AUM) Third-party ratings (e.g. Morningstar) obtained for funds and managers to increase penetration in IFA market 	<ul style="list-style-type: none"> Further development of Institutional mandates in Australia and the US Broaden consultant coverage Develop relationships with large financial institutions Continue to deliver market leading solutions to the wholesale market 	1,2,3
Derivatives growth further fuelled through consultant relationships			
<ul style="list-style-type: none"> Continued focus on structured equity solutions for clients in volatile and uncertain market to improve clients' equity outcomes Seek to accelerate growth in other hedging strategies 	<ul style="list-style-type: none"> £1.2bn of structured equity sales across a range of clients Established pipeline of opportunities Growing relationship with broad market participants Building LDI presence with market consultants 	<ul style="list-style-type: none"> Development of hedging strategies in combination with Equity Solutions Focus on delivering innovative solutions to existing and new clients Increase the number of counterparty relationships Seek to accelerate growth in other hedging strategies 	1,2,3
New product launches to accelerate growth			
<ul style="list-style-type: none"> Continue to develop solutions based on institutional client needs for outcome oriented products Focus on capital preservation and income solutions for the wholesale market 	<ul style="list-style-type: none"> Launch of the rebranded UK Dynamic Equity Fund strategy in partnership with Hargreaves Lansdown 	<ul style="list-style-type: none"> Execution of new investment advisory strategies across client base 	1,2,3
Deliver outcome orientated returns for shareholders			
<ul style="list-style-type: none"> Continue to return adjusted profits to shareholders in accordance with the Board's distribution policy 	<ul style="list-style-type: none"> Dividends paid and payable representing >80% of adjusted profits 	<ul style="list-style-type: none"> Capitalise upon the run-rate revenue position to grow adjusted profits 	4,5

Key 1. Growth in mandated AUM/NUM 2. Regretted client attrition 3. Growth in net management and advisory fees
4. Adjusted underlying pre-tax margin 5. Percentage of adjusted earnings per share distributed

Centred on client outcomes...

What drives us

The core ethos of the Group is to be aligned with our clients' desired outcomes. This means a client engagement process that draws upon our advisory skills to understand with our clients their investment objectives and outcomes, and then work with them to design investment solutions to meet those specific outcomes.

This is often an iterative process for both us and our clients and this sharing of ideas and needs leads to an underlying base of intellectual capital which can be applied more generally across the business.

The Group therefore puts particular emphasis on developing listening, learning and idea generating skills in our people in order to facilitate the engagement process with our clients.

This is as opposed to a more traditional asset management approach of selling the best fitting products to the client based upon a menu-like approach to engagement.

What we do

Divisions

All of the divisions operate as part of a single business and are complementary in nature, allowing for the distribution of multiple advisory and investment solutions to clients. Each division has different and complementary capabilities which can be applied singly or in combination to deliver a client outcome.

Advisory division

The Advisory division provides advisory services to UK DB pension schemes, UK DC pension schemes, US pension schemes and insurance firms. During the year the division provided services to over 180 separate schemes. This includes investment, actuarial and transaction advice. Advice is given either on a retainer basis, or through ad hoc projects.

Fiduciary Management division

Fiduciary Management involves the delegation by clients of a range of services to the Group. These include asset allocation, hedging, manager selection and transition management. Total Investment Governance Solution (TIGS), the primary Fiduciary Management product currently has £8.3bn of AUM and has consistently outperformed its client outcome orientated benchmark over the last 12 years.

Derivative Solutions division

Derivative Solutions provides liability-driven investment (LDI) and structured equity strategies, which are offered to institutional investors. The Notional under Management (NUM) of £13.9bn comprises interest rate swaps, inflation swaps and structured equity solutions, supported by collateral management.

Equity Solutions division

Equity Solutions is an active equity manager covering a range of UK and global equity strategies. These services are offered on a segregated and pooled basis to both institutional clients and retail intermediaries on a wholesale basis, with £2.4bn of AUM.

Client

The core ethos of the Group is to align itself with our clients' desired outcomes.

Engagement

A client engagement process that draws upon our advisory skills to understand with our clients what their investment objectives and outcomes are.

Outcome

Well designed solutions leads to low levels of client attrition and a stable and recurring revenue base.

Solutions

We then work with clients to design investment solutions to meet those desired outcomes.

How we generate revenue

The Group generates revenue in four main ways:

Management fees

In Fiduciary Management, Derivative Solutions and Equity Solutions, fees are generally charged based upon levels of AUM or NUM in derivatives. These fees are expressed as basis points (bps) charged on the levels of AUM and NUM. Fees vary between products and clients, depending on factors such as client type, mandate size, and product type. This means that they can vary as the mix of products changes.

Performance fees

Some Equity Solutions and Fiduciary Management mandates include performance fees, which are earned for investment performance above a specific benchmark. These benchmarks are carefully tailored to client outcomes, to ensure that the Group's reward is closely linked to the interests of our clients. In other divisions, the client objectives are generally not linked to absolute investment outperformance and therefore performance fees are not used.

Advisory retainers

Advisory retainers are earned where clients engage us to provide pre-agreed levels of service over time, generally a year. They are often recurring over a number of years.

Advisory projects

Where clients engage us for specific ad hoc advisory engagements, we categorise the income as project revenue. Many of our advisory project clients are also retainer or fiduciary clients, or clients of other divisions.

How we create value

Across the divisions, the Group combines its understanding of client outcomes with asset allocation, derivatives and equity expertise.

Our low turnover of client assets and longevity of relationships – as a result of a low attrition rate in comparison to the broader market – means that the sales and marketing functions can focus on originating new business and we do not have to 'run to stand still'.

The interconnected nature of the four divisions means that the Group can seamlessly offer clients a range of consulting services in combination with investment management on an advisory or fully discretionary basis. Our clients often use multiple services and can transition between each of the divisions based upon their changing desired outcomes and needs.

Critically, the open and transparent client-led engagement process allows us to engage with our clients to provide a range of services from advisory to investment management, based on the way the client wishes to engage. This is distinct from a product-led approach and critically underpins our conduct in the engagement.

Outcome

This approach leads to long-term relationships with clients, who have an expectation and understanding of how we will engage with them to meet their outcomes. Our Advisory and Fiduciary Management relationships result in us being closely involved with the investment process within our clients, which in turn gives us a greater insight into their needs.

The outcome this delivers for our business is a stable and recurring revenue base which expands with an increasing level of services and range of activities with each client engagement.

Whilst many asset managers see annual gross outflows of 20% or more, our engagement model means that our redemption rates are generally significantly lower than those of our peers.

2016 regretted client attrition

3.5%

Clients 'very satisfied' or better, most recent client survey (2015)

86%

How we manage conflicts of interest

Our engagement model in our Advisory business explicitly addresses with clients the extent to which they wish to use the broader services of the Group. Our clients range from those who ask us to exclude our wider offerings when providing our advice, to those whose contracts with us require them to be involved in our best ideas and innovations. This up-front and transparent approach to how we engage helps us manage conflicts of interest.

...leading to deep and lasting client relationships.

As of mid-2016 the J Whitaker & Sons Limited Final Salary Plan had almost completed a more than 10-year journey to ensure the financial security of its members. Two crucial decisions in the latter stages of this journey exemplify the benefit that P-Solve (a member of the Group), as the Plan's investment consultant, has been able to bring.

As of mid-2016 the J Whitaker & Sons Limited Final Salary Plan had almost completed a more than 10-year journey to ensure the financial security of its members. Two crucial decisions in the latter stages of this journey exemplify the benefit that P-Solve (a member of the Group), as the Plan's investment consultant, has been able to bring.

In March 2014, after years of work by the Fiduciary Management and Derivative Solutions divisions in reducing a deficit through investment returns and LDI management, the Plan's assets had finally become greater than its liabilities and the Trustees saw an opportunity to investigate the possibility of a pensions buyout. This would guarantee the payment of members' benefits in full, while removing from the sponsor any future financial risk arising from increases in pensioner longevity or the expenses of running the Plan. It would therefore bring the Plan's journey to a satisfactory, safe conclusion.

Quotes were obtained from three pensions buyout providers. The prices were slightly higher than the value of the assets. It was an amount the Plan's sponsor might well be prepared to contribute, but a formal agreement to this effect would take several months to negotiate. In that time, the possible buyout window might close. The Trustees had to decide whether or not to seize the likely opportunity in the face of the uncertainties.

As its investment consultant, we advised the Trustees to go ahead. Putting to one side the possible decisions of the sponsor, and given that we could minimise the potential cost of reversing the decision, we argued that the potential benefit of proceeding with a buyout outweighed the possible downside. The Trustees agreed and, in April, formally decided to pursue a buyout with one of the three providers.



The Trustees of the J Whitaker & Sons scheme are delighted with the sound investment advice we have had from the team.

Richard Knight
Chairman of the Trustees

We then advised the Trustees to inoculate the Plan against any further movements in liability values (and, hence, the buyout quote), by moving entirely out of the investment fund in favour of the matching fund. This was a risk – the move meant the Plan might forgo investment gains, which it might regret if the buyout was abandoned – but one we considered worth taking.

The Trustees agreed, and decided to move the Plan entirely into matching assets.

This turned out to have been a crucial move. The yield on 10-year gilts fell from 3.02% on 1 April 2014 to 1.67% on 31 March 2015. On their own, and in the absence of liability matching or hedging, falls of this magnitude would have taken the Plan from being fully-funded to being in deficit by almost 20%, potentially taking years of investment gains and contributions to make up.

The buyout is now virtually complete. The Plan actually has a minimal surplus of assets, and expects to finalise the buyout completely by the middle of this year.



For a small scheme like ours to have had such an outstanding performance over a most turbulent investment period is amazing and by themselves, the Trustees would not have had the experience to manage the portfolio to reach such gains.

Working with P-Solve [the Group's subsidiary] is a joy. The team are always contactable and will answer any enquiries in a fast and efficient way. They go out of their way to ensure the Trustees understand their strategies and advice so the board are able to maintain control. Also, the close liaison between P-Solve as investment advisors and First Actuarial, who were undertaking the negotiation, was essential and expertly-handled. To reach the buyout stage – the ultimate goal of any DB scheme – several years ahead of our plan is an excellent achievement for any board of Trustees and we owe a good slice of that accolade to our investment advisors.

Richard Knight
Chairman of the Trustees

Strong progress on our strategy.



Mike Faulkner
Chief Executive Officer

2016 revenue

£47.2M

Growth in AUM/NUM

17%

In-force revenue growth

17%

In my report this year I address the performance of the business during 2016 and our outlook for the coming year. But I also wish to focus on some elements of our business that are possibly less well understood. These are questions that have come up regularly during the year in discussions with our shareholders, analysts, and others. We believe this is a great business, with fabulous people and a unique story, and therefore we want people to understand clearly what we're doing.

I will cover the following areas, with more detail provided throughout the Annual Report as indicated:

- **Influences on our financials during 2016.**
- **The outlook we see for our current business lines and where we are investing.**
- **The financial exposures in our revenue base** – in terms of the influences on our revenue base from market returns and how this leads to diversification.
- **Influences on our performance fees** – this year our performance fees were significantly lower than in 2015, and therefore it is worth considering the influences that affect them.
- **How we are thinking about governance of the business** – why we have introduced a Group Investment Committee as a sub-committee of the Board.

Influences on our financials during 2016

The year to June 2016 saw us deliver revenue of £47.2m, which is less than the previous year.

Management fees increased by 6%, despite the closure of the global equity strategy in the prior year, but performance fees during the year were significantly less, and shareholders have therefore raised questions over the structure of our performance fees, which I address in a later section. Our revenue, excluding performance

fees, was lower due to weakness in advisory fees (last year advisory fees were around £12m, this year they were around £9m). The weakness was due to the following factors:

- a significant advisory revenue generating event occurring in the year to June 2015 (departure of a third-party asset allocation team) with no similar event this year and generally lower levels of projects;
- weakness in our Palisades transaction advice activity (which we exited during the year); and
- a change in the way in which clients are choosing to pay for derivatives business, with less up-front advisory fees but more ongoing in-force revenue. This is a better model going forward but in a shorter time period leads to lower advisory fees.

But there is another significant factor that has had a meaningful impact, and this is the factor on which I want to focus. The growth rate over the previous year in management fee revenue was around 6%. Not bad, but not spectacular and behind where we would expect to be. However, our growth in assets has been far stronger year-on-year. Total mandated AUM/NUM growth from June 2015 to June 2016 was in excess of 17%. There has been some margin reduction over the year due mainly to client size and product composition. But even adjusting for that, the growth rate of in-force revenue has been around 17% per annum, a very strong rate of growth in the prevailing conditions. The reason the revenue growth and in-force growth rates have diverged so much in this period is simply because of the timing of when the growth came in both this year and the last. From a medium-term perspective this is a non-issue. But it did affect the numbers in this year. The table on the next page illustrates the actual and in-force growth rates by revenue line.

This can be most clearly seen in:

1. Fiduciary Management, where strong performance during June 2016 significantly increased AUM with only a minimal revenue impact.
2. Equity Solutions – Institutional, where the impact of the loss of AUM as a result of the closure of the thematic global equity strategy meant that the current year actual revenue was lower than the prior year. We have, however, completely rebuilt these assets by the end of the year.

We will suffer from this effect from time to time, primarily because the incidence of our new business can be lumpy, given its primarily institutional nature. Equally, there will probably be some years when the reverse effect will happen – the wins will be loaded towards the front end of the year and the growth rate will appear faster than the underlying rate. But the story of the year is that our underlying growth rate was much faster than revenue growth implied (more than 10% faster on management fee revenues).

Profitability is consistent with our guidance for compensation and administration expenses. We had guided during the year that we would maintain a higher compensation ratio for now, because we were expecting the difficult market backdrop to create opportunities to hire great talent into the business. This has already proved true in a number of areas.

	Fiduciary Management	Derivative Solutions	Equity Solutions		Total
			Wholesale	Institutional	
Growth in management fees	6%	21%	26%	(32%)	6%
Growth in in-force revenue ¹	26%	13%	8%	13%	17%

1 In-force revenue is measured as fee-earning AUM/NUM multiplied by the revenue margin.

Outlook for our current business lines

The diversified nature of our business lines tends to mean that the lines will perform differently in different market conditions. Summarised in the table below is how we see the outlook for the various lines.

Business line	Outlook	Comment
Advisory	Stable	We see good opportunities in Advisory in general, but the growth opportunities in UK DB will be muted a little due to the focus on fiduciary management within the industry.
Fiduciary Management	Growth	Our current pipeline, coupled with the general level of intermediation that now exists in this market, makes this a growth market for us. We are strongly positioned and our performance, especially through the recent risk period, is strong.
Derivatives	Growth	The prevailing levels of risk make this an attractive market for us and we have made progress during 2016 marketing our capabilities to a wide range of institutions. Structured equity is emerging in the US as an interesting area, and we expect institutional interest in risk mitigation to remain strong while conditions exhibit high levels of uncertainty.
Equities – Wholesale	Faces risks	Given the dominance of our small cap strategies within Wholesale, our view is that while there are growth opportunities in this market, they are less certain. We are also exposed to attrition within the small cap fund if concerns over a potential move of the UK into recession from Brexit materialise, leading to reductions in small cap allocations.
Equities – Institutional	Growth	We see decent demand for our equity propositions within the institutional space, and therefore we believe the profile in this segment continues to be for growth.

On balance, therefore, we see conditions in the near-term favouring Fiduciary Management, Institutional Equities and Equity Solutions. But were economic growth to improve significantly, as some have recently suggested, then we would expect our broader Equity Solutions business to perform very well indeed. Also, in the event that there is a rise in interest rates, it seems likely that would favour value strategies and we would expect our Equity Solutions business to perform well in that environment (that would reduce Fiduciary Management AUM but probably lead to good performance fees, as I describe later in my report).

Chief Executive's review *continued*

Investments we are making

Investment in growing new business lines is not a constant for us. In some years, our focus has been completely on growing existing business lines. But we do have a history of investing in new initiatives to develop completely new lines of business and have generally done this successfully. Identified below are some examples:

2002–2004	Fiduciary management
2005–2007	Derivatives
2010–2016	Defined contribution
2011	Insurance

These are just a few examples, but they illustrate that two of our four key divisions were significant investments at one point. There are also investments we have made that have not worked out and we have closed them. But overall, investing in the business has been well worthwhile and strongly supported the organic growth of the business.

Currently, we are investing around £1m – primarily in remuneration – as a direct result of the opportunity we see in a range of areas. We prefer to accelerate the scale in the business as we believe this will lead to much faster medium term profit growth if even one of our investments is successful.

It is worth noting that any investment we make in a new business line has to have the potential to become of comparable size to our existing divisions. Otherwise, we would grow it from within an existing division (the launch of our Micro Cap Investment Company is a case in point – this is capacity constrained and would never have been a line in its own right, and therefore was an investment from within our Equity Solutions division).

We are investing in the following significant opportunities currently:

- **Global macro fund** – we have been developing for some time a macro strategy that could be accessed by those seeking relatively high levels of return. This is likely to be a longer-term build strategy, but clearly if successful is potentially very significant;
- **US funding solutions** – we believe there are opportunities to help US corporates with innovative approaches to how they fund their DB pension schemes; and

- **Individual solutions** – we see significant opportunities within the UK market to help allow individuals to access some of our thinking around outcome-led strategies that has been so successful in the institutional space. This is also longer term in nature, but if successful is a very substantial market.

We are focusing on these areas as potentially very significant opportunities, that if successful would also further diversify our business.

Revenue base diversification

We have consistently made the point that our business lines give us significant diversification, as the various lines perform differently at different times. The primary reason we do this is to help us achieve stability and growth in our revenue base.

In the long run, a strong team of people will produce the best chance of attractive, sustainable long-term growth (in our view). We seek to achieve a high level of stability in our revenue base through diversification. It makes us far less exposed to an economic downturn and gives us the flexibility to focus on our organisation and developing people.

If we can maintain relatively high client retention rates, achieve significant positive flows, and diversify our revenue base across a range of assets, we will achieve strong and stable growth. High quality client engagement is our strategy for managing the retention rates and flows. Strong diversification and macro positioning is our way of achieving stability in the in-force revenue base.

I do believe, however, that the diversification in our in-force revenue is difficult to understand for many investors, because the exposures in our Fiduciary Management business are challenging to understand. We therefore have added an explanation of why these exposures exist on page 14.

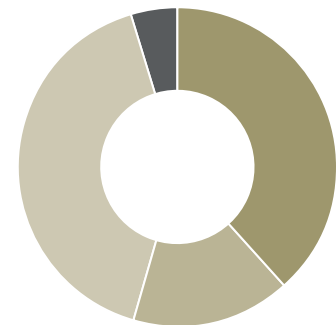
In summary, the Fiduciary Management revenue is simultaneously exposed to return seeking assets (primarily equities) and to long-term interest rates. In most circumstances, if return seeking assets are struggling, long-term interest rates are falling and therefore the value of our exposure to hedging in our revenue base is rising. Hence, the interest rate risk tends to offset the negative performance of return seeking assets. The converse also tends to be true, and therefore that is why we are a much less beta exposed manager, with greater revenue and asset stability.

This simultaneous exposure to return seeking assets and interest rates can make it hard to evaluate how the business is positioned in aggregate. We have, therefore, developed a simpler way of illustrating this for shareholders in the business. We are calling this our 'Revenue Weighted Asset Allocation' (RWAA). It is effectively the asset allocation at a point in time that is driving our revenue base.

Set out below is the RWAA for the end of June 2016. As you can see, 'cash' is a relatively significant allocation. This is because advisory and derivative fees are essentially fixed in nature – we therefore include them as cash. It is worth noting that 'cash' is used here to illustrate that these lines do not go up or down with market movements – but equally important is that they are not growing at a cash rate. For example, many of our advisory retainers are linked to inflation. Derivative hedging levels will tend to rise as overall asset values rise.

What is also clear from the RWAA is the significant interest rate exposure in the revenue base, along with equities and other diversifying asset classes (the vast majority of which are sourced from Fiduciary Management).

RWAA June 2016



Equities	38.5%
Interest rates	16.2%
Cash	41.0%
Other	4.4%

The RWAA illustrates something quite important. It identifies why the business is as diversified as it has been. This is because in most circumstances, if return seeking assets are struggling, long-term interest rates are falling and therefore the value of our exposure to hedging in our revenue base is rising. Hence the interest rate risk tends to mitigate the negative performance of return seeking assets. The converse also tends to be true, and therefore that is why we are a much less beta exposed investment firm, with greater stability in revenues and AUM/NUM.

The year to June 2016, and the month of June in particular, have illustrated the significant benefits of maintaining interest rate exposure. During June, the value of Fiduciary Management assets rose by around £600m due to performance gains, the majority of which was due to interest rate hedging, as long-term interest rates dropped to around 1% in the UK.

A couple of risk warnings are worth pointing out. First, we are not a company to invest in if you are seeking to invest in a pure equity fund manager to take advantage of strong equity markets. We do not have nearly as much exposure as other companies to this asset class. Secondly – and perhaps more importantly – if long-term interest rates were to rise significantly, we will take a hit on our revenue base, albeit one that will probably be offset to a degree by strong performance in return seeking assets. But we will be hit, no question, as we will not be reducing hedges significantly given the benefits they provide to our clients.

Nonetheless, our prevailing view is that we will not see a significant rise in long-term interest rates, without a meaningful expectation that short rates will rise significantly. We really struggle to see that happening in the current macro-economic and political environment. But more than this, given a number of countries are seeing negative interest rates, if the UK moves in that direction then we would see significant increases in asset values from hedging within Fiduciary Management.



Our business lines give us significant diversification, helping us achieve stability and growth in our revenue base.



During June, the value of Fiduciary Management assets rose by around £600m due to performance gains.

The composition of the RWAA is also influenced by the allocations to various asset classes in the return seeking portfolios of Fiduciary Management. These allocations will change as a result of our macro view of the world. This dynamic approach to asset allocation has been a significant source of added value for our clients and indeed for our revenue growth. It has also helped us reduce downside risk through effective defence when market conditions have been difficult.

Understanding our performance fees

Performance fees within our business come from two sources – the Fiduciary Management division and certain mandates within Equity Solutions (these are primarily institutional but we also have a performance fee in the Micro Cap Investment Company that is contingent on shares being repurchased).

The Equity Solutions performance fees can be significant, but they are traditional structures based on whether added value has been achieved relative to equity market benchmarks. The Fiduciary Management performance fees we would generally expect to be more consistent and on average greater. They are also a little more complicated. Below is an overview.

We currently have two types of performance fees within Fiduciary Management:

- Clients that pay us to outperform cash by more than 3% per annum.
- Clients that pay us to outperform their liability benchmarks (typically driven by gilts) by more than 3% per annum.

The performance fee is generally equivalent to 15% of the return we achieve in excess of the cash plus 3% hurdle. The performance fee practically only applies to the return seeking assets. We do have clients that have opted for fee structures that do not include performance fees, but these are the minority. The majority of clients who use performance fees pay us to outperform a liability-related benchmark rather than cash. This means that a significant influence on the level of performance fees we get paid is whether liabilities have risen, which is driven by the movement in bond yields I explained earlier.

Chief Executive's review *continued*

The table below explains this from three different market conditions. The key to understanding this is that we don't tend to fully hedge the liability risk exposure, because we need to manage the risk that liabilities and assets fall at the same time. It happens rarely, but it can and does happen from time to time.

Market condition	Performance fees	Reason
Yields fall significantly, liabilities rise	Likely low to zero	Even if our return seeking performance is strong, the underhedge against the long-term interest rate risk will be a source of underperformance. This will tend to depress performance fees.
Yields stable, liabilities flat	Relatively good, assuming return seeking assets produce decent positive returns	Performance fees driven by asset returns – as long as these are at reasonable levels we will be paid performance fees.
Yields rise significantly, liabilities fall	Likely to be significant	Because we are hedging less than 100% of liabilities, we are likely to strongly outperform our objective, especially if risk assets are also performing. Hence performance fees should be significant.

This is a simplification, as there are some other factors involved. However, it explains the essence of what investors might expect from performance fees. What is worth noting is that, in years where liabilities are rising strongly, performance fees tend to be depressed. But, these years also tend to correspond to more substantial growth in Fiduciary Management AUM. This is what we saw during 2016 with long-term rates dropping so far – very strong growth in AUM but lower levels of performance fees.

Equally, if long-term rates rise, it will lead to strong performance fees, but we will see AUM levels depressed. Therefore performance fees and AUM fees can diversify each other to some extent.

But the key takeaway is that significant downward movements in long-term interest rates will tend to be the main reason that performance fees are not paid in a particular year. If rates subsequently stay at that level, we would expect in time for performance to catch up, such that performance fees become payable in future years.

How we are thinking about governance

As you will see in this report, we have added a Group Investment Committee as a formal committee of the Board, and provided a report on its activities. I believe this is unusual in our sector to have as a committee of the Board. However, this happened at my request and I therefore wanted to explain the thinking and direction of travel.

Clearly a key role of our Board and sub-committees is in executing our control structure. But we have always seen it as much more than this. Our objective from the beginning was to create a Board that was fully engaged in the business. Equally, because we are so focused on the development of our people, we wanted to create processes that engaged as broad a range of our people as possible. This gives the Board a chance to appreciate first-hand the depth of talent within the organisation, to contribute to people strategy more generally and is a key element of how we manage succession.

We have identified in our previous reports that our business model has five pillars to it:

- client engagement;
- investment process;
- people;
- operational effectiveness; and
- corporate strength.

The last two are typically addressed in any firm – and we are no different – by the Audit and Risk Committee. The governance of our people strategy occurs through our Remuneration Committee, however we wanted to achieve a way for the Board to be more engaged in the other two areas.

Hence we have taken a first step in establishing a Group Investment Committee to govern and support the investment process. This has been operating for most of the year, under the chairmanship of Peter Warry, one of our Non-Executive Directors.

During 2017, we intend to establish a Client Engagement Committee, which will be chaired by Angela Crawford-Ingle, and there will also be a report on its activities in our next Annual Report.

The importance of a clearly articulated, dynamic investment process was illustrated in the lead up to, and following, the Brexit period. We therefore include in the next section of our Annual Report an overview of the actions we took to generate value for clients.

Overall summary

In what has been a challenging year for markets, we have made significant progress in achieving underlying growth. Revenue growth has lagged this growth rate somewhat due to the timing of when new business was taken on, but we are well positioned to capitalise upon our AUM/NUM growth in 2017. We are investing significantly in seeking new business lines to grow, and this is a reflection of the range of opportunities we see currently.

Finally, I would like to thank our clients, employees and shareholders for their continued support of the business during the year.

Mike Faulkner
Chief Executive Officer



In what has been a challenging year for markets, we have made significant progress in achieving underlying growth. Revenue growth has lagged this growth rate somewhat due to the timing of when new business was taken on, but we are well positioned to capitalise upon our AUM/NUM growth in 2017. We are investing significantly in seeking new business lines to grow, and this is a reflection of the range of opportunities we see currently.

Fiduciary management

The vast majority of our Fiduciary Management business relates to defined benefit pension schemes, whereby the Group is appointed to manage the pension portfolio, amongst other things.

Typically, these pension schemes are seeking to manage their funding levels. The funding level essentially describes the amount of assets the scheme holds which it can use to meet its liabilities (i.e. benefit payments to members) as they fall due. The ultimate goal is for a scheme to become 'fully funded', at which point the assets it holds meet or exceed the liabilities. It is then that the sponsor can stop contributing into the scheme. Up until this point, the scheme is 'in deficit', and so the sponsor must continue to contribute to the scheme to improve its funding level. The Trustees of the pension typically wish to control the variability in their funding levels in order to stabilise the amount of contributions that their sponsor is required to make, as much as possible.

For context, the Pension Protection Fund (PPF) estimated that as of June 2016, from the 5,945 schemes in its index 84% were in deficit, with a total deficit of £384bn.

There are two major influences on the pension deficit – the value of the liabilities and the value of the assets available to cover them. The value of the liabilities is measured by the scheme actuary, and in the vast majority of situations will be derived with reference to long-term interest rates – equivalent to long-term gilt yields. As gilt yields change, the actuary's measurement of the liabilities also changes.

The simplest way for a pension fund to cover its liabilities is to hold a matching level of gilts, however, very few schemes have enough assets to invest all their money in gilts to meet their liabilities. They therefore need to seek a return in excess of gilts, in order to close their funding gap. This creates a challenge – how do we invest the assets for return (i.e. not using just gilts) but at the same time reduce the risk of a significant change in yields leading to liabilities rising significantly?

The answer (for our clients anyway) is as follows:

- Assets are split between 'return seeking' and 'matching' assets. The current split is about 65%/35% return seeking/matching.
- Return seeking assets comprise a range of asset classes – equities, bonds, property, alternatives etc.
- Matching assets almost entirely comprise gilts.
- In addition, because the return seeking assets do not move in line with gilt yields, we also make significant use of 'liability hedging'. Simplistically, this makes use of interest rate and inflation swaps (types of derivative contract) to hedge the effect of changing long-term interest rates on the actuary's assessed value of the liabilities.

This means that for our Fiduciary Management clients, their portfolio is exposed simultaneously to the return seeking assets, as well as changes in long-term interest rates.

This fact identifies why Fiduciary Management is as diversified as it has been. This is because in most circumstances, if return seeking assets are struggling, long-term interest rates are falling which means that the matching assets are making positive returns. Hence the interest rate risk tends to offset the negative performance of return seeking assets. The converse also tends to be true and, therefore, that is why we are a much less beta exposed manager, with greater revenue and asset stability.

This effect was emphasised during the Brexit events, as covered on the following pages.

84%

Percentage of DB schemes in deficit, totalling £384bn (PPF, June 2016)

How Fiduciary Management seized the Brexit day.

The UK's referendum on continued EU membership provided us with plenty of challenges, but it also gave us opportunities to generate returns for our clients.

Through a nimble, dynamic approach to asset allocation and an emphasis on minimising unnecessary investment risks, our Fiduciary Management division generated a return of more than 16% in the first six months of 2016.

This section details our approach to navigating the uncertainties that the referendum engendered. It explains what we did to protect our Fiduciary Management clients' assets from the potential negative outcomes that might have followed the referendum result, and how we took advantage of the investment opportunities that arose.

At no stage did we take a particular view on the likely result of the vote, regarding it as too close to call all the way through to the announcement of the result on Friday morning, 24 June. Instead we looked at the potential consequences of a vote to Remain and a vote to Leave, considered the impact on our clients, and made our investment decisions on the basis of the balance of risk. The outcome shows how our clients can benefit from diversification, considered risk management and dynamic portfolio management.

The investment decisions described below, including allocations to gilts, relate to the return seeking component of the assets we manage on behalf of our Fiduciary Management clients.

From mid-January to the end of March – raising risk to 'overweight'

Having gone into 2016 with a neutral risk position, the sell off in the first six weeks of the year came against a backdrop of continued supportive monetary policy and relatively good global growth prospects and, we felt, was overdone. It created a number of good buying opportunities, and we took advantage of this,

buying equities and high yield corporate bonds. By late March we had taken the portfolio to an overweight risk position, with the equity allocation in particular reaching 52%.

April and May – reducing risk to 'underweight'

The markets' recovery from their mid-February lows meant that, by the start of April, valuations looked fair.

We anticipated headwinds. These included a possible slowdown in Chinese growth, and the general contraction in market liquidity that is typical of summer. Of course there was also the political uncertainty of the UK's referendum, with a very unusual US presidential election to follow less than six months later.

In relation to the referendum, the markets were beginning to price in a win for the Remain camp. We felt less sure. It seemed to us, right up to the end as it turned out, that the result could go either way. At the same time, we doubted that our five- to 10-year view would alter whatever the result, with other variables dwarfing the long-term impact of the vote. We also considered that a Leave vote would ultimately prove a bigger issue for the rest of the EU than for the UK.

When we considered the short-term impact on pension schemes of the possible outcomes, we felt the downside risk from a vote to Leave was substantially worse than the potential upside gain from a vote to Remain.

In our view, a Leave vote was immediately likely to engender market volatility, especially in UK and European equities. It would probably also generate uncertainty around UK growth, weakness in Sterling, especially relative to the US Dollar, and a fall in gilt yields (see Hedging ahead of the vote on page 17).

Accordingly, we moved to 'underweight' risk at an overall portfolio level. We reduced our equity holdings, especially in the UK and Europe, taking the overall equity allocation down to 40%. We increased our allocation to gilts.

For those Fiduciary Management clients that have given us discretion over liability hedging, we also increased interest rate hedging levels.

The first three weeks of June – rebalancing

The equity markets appeared to be following the results of the polls and betting odds that were published in the run up to the vote. When the polls swung to Leave in mid-June, UK and European equity markets fell sharply. Too sharply, in our opinion.

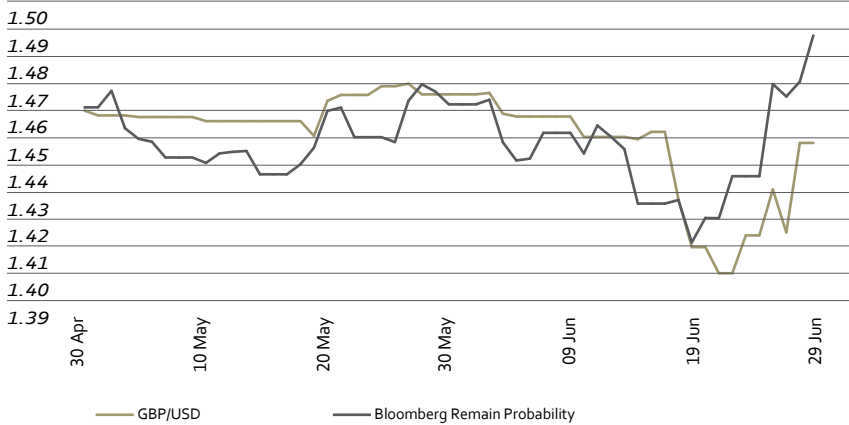
Was this overreaction evidence of a London bubble? With many of our clients based outside the capital, our view was perhaps more rounded than market participants talking only to other Londoners.

Similarly, swings in the currency markets gave us opportunities to make some profitable trades. Early in the week of the referendum, the polls swung back the other way, indicating a Remain vote was on the cards. Again the markets moved up – once more, in our opinion, overdoing it and pricing in a near certain Remain vote. We reduced our exposure to Sterling, selling gilts and purchasing US treasuries and German Bunds (we bought government bonds rather than cash funds to avoid exposure to bills issued by banks).

The purchase of US Dollar and Euro-denominated assets also put us in a good position in the event of the vote being to Leave, as this note goes on to describe.

Fiduciary management *continued*

Expected result and impact on Sterling



In the days just before the vote we anticipated that, whichever way the voting went, there might be another market overreaction. This could present us with an opportunity to buy – at depressed prices – assets that we liked anyway (i.e. assets that we liked from a longer-term economic perspective).

The Investment Committee and Fiduciary Management Committee, which has responsibility for the portfolio management of fiduciary clients, arranged to convene at 7.45am on the Friday the result was announced, to discuss the potential implications for asset prices. Ahead of the meeting we modelled potential trades on various scenarios so as to be able to execute our decisions swiftly.

Friday 24 June – a buying opportunity

When the markets opened on the morning the referendum result was announced, the FTSE 100 and European equity indices fell about 8–9% in local currency terms. This was the overreaction we were waiting for, though it was not as big as hoped.

We quickly took advantage of it by purchasing equities. We took the overall equity allocation back up to 45%, spreading our purchases across the UK, German, Japanese and US equity markets.

Speed was essential: the FTSE 100 Index was below 6000 for no more than the first 40 minutes that morning, hitting a low at 8.08am and then climbing. We bought into it at 5850.

We funded these equity acquisitions with sales of the gilts, treasuries and Bunds that we had bought, all of which had increased in value (especially in Sterling terms – on the day, Sterling fell by about 10% against the US Dollar, and by about 8% against the Euro).

Gilt yields, in particular, fell by 25 to 30 basis points (0.25% to 0.3%), with the 10-year gilt yield at one stage falling to a record low of 1.01%, fully justifying the increase in interest rate hedging we had implemented on our clients' behalf.

Overall we traded approximately £1.3bn that day, about 15% of our total portfolio.

The week after the result

We remained cautious, and alive to potential opportunities. The fallout of the referendum had immediately pitched the UK into political turmoil, with the prime minister resigning and the leader of the opposition facing a vote of no confidence.

As it turned out, equity markets continued to recover that week. We sold a portion of the assets we had bought, locking in moderate gains in a highly volatile environment. In particular, we sold the UK equity we had bought the previous Friday for a return of over 7%.

Investment performance

As a result of our dynamic investment decision-making we are pleased to say that we generated strong investment returns for our Fiduciary Management clients during this difficult market period, giving rise to a net return in June of 8.6%.

In a period when asset and liability values have been dominated by falling interest rates, this has been of significant benefit to our clients.

The performance compares favourably with a variety of benchmarks, but most importantly, over the last 10 years it is ahead of our clients' composite liability benchmark portfolio, the minimum return our clients need to beat if their assets are to grow faster than their liabilities.

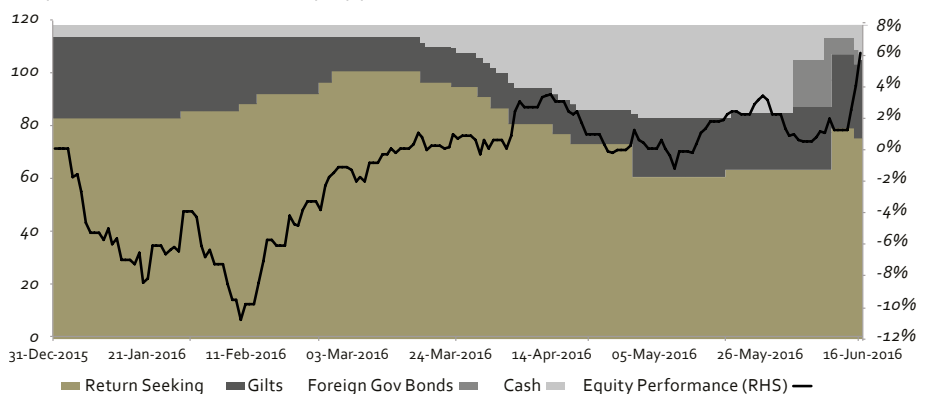
Further risk and opportunities

The UK economy has entered a particular period of uncertainty that could easily last a couple of years. The referendum result means the EU as a whole is now facing ambiguities, and not just over negotiations with the UK over the terms of exit. Anti-EU sentiment is strong elsewhere on the continent and will only be encouraged by the UK's vote, potentially meaning more political change.

Equally, political uncertainty will soon be growing in the US, where November's presidential election is set to follow a bruising campaign that could well bring surprises along the way. Meanwhile, in the financial markets, volatility has risen, credit spreads have widened and investors' appetite for liquidity has very probably increased.

Uncertainty means risk, but usually it also means investment opportunities. We have already begun to see scope for taking profitable positions, some of them involving derivatives. If this passage of the market continues to be as difficult as it was in the first half of 2016, the advantage of a nimble, innovative approach will continue to be clear.

Simplified asset allocation and equity performance in the first half of 2016



Hedging ahead of the vote.

The market had been anticipating a potential fall in Sterling since the date of the referendum had been announced, back in February, but there were mixed views on the impact of a Leave vote on gilt yields.

Many market commentators said that if the UK exited the EU then gilt yields would rise, reflecting a withdrawal of assets from the UK and, possibly, a base rate rise to support Sterling. We didn't see this as a foregone conclusion.

If the UK voted to exit the EU, we foresaw a reasonable scenario where UK gilts were seen as a safe haven from equity, and maybe even a safe haven from continental European bonds. Moreover, the Bank of England might try to help the UK economy by delaying any plans it had to raise the base rate, and maybe even cutting the base rate. Any of these developments might result in lower gilt yields.

A possible fall in gilt yields is of particular concern to us as a fiduciary manager. Gilt yields to a large extent determine the value of a DB pension scheme's liabilities: if gilt yields fall, its liabilities rise. This would cause that scheme's funding level to deteriorate, unless it is fully hedged – that is, owns assets that, when rates fall, will rise in value to the same extent that the value of the liabilities rise. This is one of the largest sources of risk to DB pension schemes.

As mentioned in the body of this note, we did not take a view on the direction of the vote, we looked at the balance of risk. On the one hand was the possibility of deteriorating funding levels, if hedging was not increased and the vote was to Leave. On the other hand was the possibility of regret, if hedging was raised and the vote was to Remain.

It seemed to us the potential damage from deteriorating funding levels outweighed the possible regret. The difference was large enough to warrant pension schemes increasing their interest rate hedging, if they were not already fully-hedged. So, as a matter of prudence, where we had discretion to do so we increased our Fiduciary Management clients' interest rate hedging.

In addition, we carried out a special review to ensure our clients had adequate amounts of collateral to post for their liability- and currency-hedging allocations. We explicitly considered scenarios involving larger-than-usual moves in interest rates, inflation and Sterling.

£0.2BN

Increase in client assets from rate hedging in June

10.3%

Worsening in funding level for typical unhedged pension scheme in June

Strong AUM growth to drive management fees.



Kevin Hayes
Chief Financial Officer

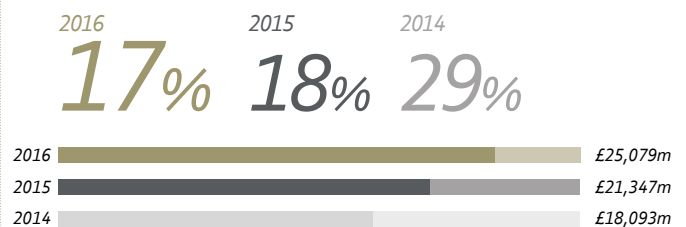
Strong management fee and AUM/NUM growth, weaker advisory and performance fees

- Mandated AUM/NUM increased 17%
- Positive net flows including rebalance of £3.7bn
- Positive investment performance of £0.8bn
- Margins largely stable, with small reduction in Fiduciary Management. Management fees up 11% year-on-year, after adjusting for the effect of the closure of the thematic global equity strategy¹
- Administrative expenses tightly controlled
- Strong balance sheet and regulatory capital surpluses

1. The thematic global equity strategy generated £1.6m of management fees in 2015 prior to their closure.

Key performance indicators

1. Growth in mandated AUM/NUM



Notes

The growth in 2014 was driven by the merger with RAMAM.

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

4. Adjusted underlying pre-tax margin²



Notes

In the current year, adjusted underlying margin fell as a result of continued investment in the business in expense and remuneration terms during a period in which advisory fees fell.

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

2. Adjusted underlying pre-tax margin represents net management and advisory fees less the related expense base, excluding the amortisation of intangible assets and EPSP costs, divided by net management and advisory fees.

2. Regretted client attrition

3.5%



Description

The Group's regretted client attrition varies from year to year but continues to be exceptionally low when compared to traditional asset managers.

Regretted client attrition is the opening AUM/NUM of lost clients, divided by total opening AUM/NUM. It excludes clients which have entered the PPF or left due to achieving funding objectives and moving to buy-in or buyout, 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.

Client attrition reflects the percentage of opening AUM lost each year when institutional management fee clients stop using the Group's services. Low client attrition is a direct result of our client engagement process.

5. Percentage of adjusted earnings per share distributed

82%



Description

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, after taking into account regulatory capital requirements at the time and potential strategic opportunities, to shareholders primarily by way of special dividends.

3. Growth in net management and advisory fees

(2%) 33% 31%



Description

This year saw management fees rise by 6%, despite the closure of the global thematic equity strategy mid-way through the prior year. However, advisory fees fell as a result of lower project fees and the disposal of the Group's Palisades business in the US.

Management and advisory fees represent the underlying revenues generated by the business. This metric measures the sustainability of the business.

Financial review *continued*

AUM/NUM and margins

The growth of our net management fee revenue results from the growth of our AUM and NUM and the stability of our management fees charged to clients.

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

The following table shows the AUM/NUM for the year ended 30 June 2016.

£m	Fiduciary Management	Derivative Solutions (NUM)	Equity Solutions			Total AUM/ NUM
			Wholesale	Institutional	Total	
Opening fee earning						
AUM/NUM	7,401	11,634	1,083	899	1,982	21,017
Sales	1,477	2,015	525	380	905	4,397
Redemptions	(534)	(864)	(372)	(45)	(417)	(1,815)
Net rebalance	–	1,118	–	–	–	1,118
Net flow	943	2,269	153	335	488	3,700
Investment performance	943	–	(65)	(47)	(112)	831
Closing fee earning						
AUM/NUM	9,287	13,903	1,171	1,187	2,358	25,548
Mandates in transition	–	170	–	–	–	170
Redemptions in transition	(49)	(590)	–	–	–	(639)
Total mandated AUM/NUM	9,238	13,483	1,171	1,187	2,358	25,079
Opening mandated						
AUM/NUM	7,561	11,804	1,083	899	1,982	21,347
Increase/(decrease) in fee earning AUM/NUM	25%	20%	8%	32%	19%	22%
Increase/(decrease) in mandated AUM/NUM	22%	14%	8%	32%	19%	17%
Average fee earning						
AUM/NUM	7,859	12,635	1,191	983	2,174	22,667
Average margin 2016 (bps)	17–18	7–8	73–74	47–48	61–62	16
Average margin 2015 (bps)	18–20	7–8	72–74	48–50	59–60	18
Net management fees 2016 £m	13.9	9.5	8.8	4.7	13.4	36.8

Total mandated AUM/NUM

£25.1BN

Increase in mandated AUM/NUM

17%

2016 average margin

16BPS

This year has seen margins remain largely stable albeit with a small decrease in Fiduciary Management. This generally reflects the size of mandate. Overall margins have fallen due mainly to more growth in the year coming from lower margin divisions.

We describe our business model as being one 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. We, therefore, have now added a new KPI – regretted client attrition, which should indicate our success in this area.

Regretted client attrition is the opening AUM/NUM of lost clients, divided by total opening AUM/NUM. It excludes clients which have entered the PPF or left due to achieving funding objectives and moving to buy-in or buyout, 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 client attrition (£m)	Fiduciary Management	Derivatives	Equity Solutions – Institutional	Total
Gross outflows	534	864	45	1,443
Opening AUM/NUM	7,401	11,634	899	19,934
Outflow %	7.2%	7.4%	5.0%	7.2%
Regretted client attrition rate	3.5%	4.2%	0.5%	3.5%

On an absolute basis, the level of institutional outflows is very low. When adjusting out those redemptions relating to buy-ins, buyouts and normal operational cash flows this figure is 3.5%.

Revenue

£'000	2016	2015	Increase/ (decrease)
Net management fees			
– Fiduciary Management	13,871	13,083	6%
– Derivative Solutions	9,481	7,857	21%
– Equity Solutions – Wholesale	8,750	6,935	26%
– Equity Solutions – Institutional	4,662	6,809	(32%)
Net management fees	36,764	34,684	6%
Advisory fees			
– Retainers	3,935	4,711	(16%)
– Project fees	4,970	7,259	(32%)
Advisory fees	8,905	11,970	(26%)
Total net management and advisory fees	45,669	46,654	(2%)
Performance fees			
– Fiduciary Management	1,227	5,263	(77%)
– Equity Solutions	299	616	(51%)
Total performance fees	1,526	5,879	(74%)
Total revenue	47,195	52,533	(10%)

Net management fees

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

This year, we have continued to see growth in net management fees, with an increase of 6%. After adjusting for the closure of the global thematic equity strategy, which earned £1.6m of management fees in the prior year, management fees have increased by 11%.

Fiduciary Management

Closing fee earning AUM £m	Growth in fee earning AUM	Average AUM £m	Average margin (bps)	Revenue £m	Growth in revenue YoY
9,287	25.5%	7,859	17–18	13.9	6%

As discussed by Mike in his Chief Executive's Review, Fiduciary Management has enjoyed a strong year, with significant positive net flows and investment performance, including during the Brexit event. The growth in AUM in June has minimal impact on revenue in the current financial year due to its timing late in the year, however it gives strong growth in in-force revenue into 2017.

Multi Asset Solutions

During the prior year, the Multi Asset Solutions team was established and the Dynamic Asset Allocation (DAA) fund was launched and seeded with £5m of the Group's capital. At year end, AUM was £64m (2015: £63m). The DAA fund uses the same investment processes as TIGS in Fiduciary Management. Due to the size of the AUM it is presently included under the Fiduciary Management heading.

Net management fees growth

6%

Advisory fees fall

(26%)

Performance fees fall

(74%)

Financial review *continued*

Derivative Solutions growth in NUM

19.5%

Structured equity sales

£1.2BN

Gilt and LDI sales

£0.8BN

Equities growth in AUM

19%

Derivative Solutions

Closing Fee earning NUM £m	Growth in fee earning AUM	Average NUM £m	Average margin (bps)	Revenue £m	Growth in revenue YoY
13,903	19.5%	12,635	7–8	9.5	21%

Derivative Solutions comprises the LDI (including gilt collateral management) and structured equity products.

Derivatives by type:

£m	Structured equity	Gilts and LDI	Total NUM
Opening fee earning NUM	1,539	10,095	11,634
Sales	1,177	838	2,015
Redemptions	(9)	(855)	(864)
Net rebalance	(10)	1,128	1,118
Net flow	1,158	1,111	2,269
Closing fee earning NUM	2,697	11,206	13,903
Mandates in transition	–	170	170
Redemptions in transition	–	(590)	(590)
Total mandated NUM	2,697	10,786	13,483

The redemption in transition relates to a client entering the PPF.

During the year we onboarded five new clients into LDI. In addition, we continued to see strong flows from existing clients who increased their level of hedging to respond to market and scheme funding levels. These hedges generally increase in value as interest rates fall, so have continued to generate NUM increases in the year, helping to defend clients from increases in their liabilities.

Derivative Solutions' structured equity capabilities provide strategies to shape the return profile of clients' equity portfolios. It has been another strong year for this product, with sales to three new clients, including £1bn to a FTSE 100 retail consortium. This follows the £700m Royal Mail Pension Plan mandate from the prior year.

As structured equity products are usually sold at a lower margin than LDI, the average margins of the Derivative Solutions division will fall over time if structured equity continues to sell strongly, due to mix-shift effects.

Equity Solutions – Wholesale and Institutional

Closing fee earning AUM £m	Growth in fee earning AUM	Average AUM £m	Average margin (bps)	Revenue £m	Growth/(fall) in revenue YoY
2,358	19.0%	2,174	61–62	13.4	(2%)

Equity Solutions historically comprised the PVT (Potential, Value, Timing) team and the thematic global equity strategy.

During the prior year, the Group took the decision to close the thematic global equity strategy, leading to a reduction in AUM of £774m. This led to the June 2015 AUM being £2.0bn, below the £2.4bn value at IPO. It is, therefore, pleasing to end the year with AUM back at historic high levels and we continue to see strong pipeline from Institutional clients. Wholesale tends to be more volatile and we remain cautious on the outlook for redemptions as the ramifications of Brexit evolve.

Excluding revenue from the thematic global equity strategy in the prior year (£1.6m), revenue has increased by 11% year-on-year.

Global High Alpha sales

£0.4BN

All funds in top two quartiles since inception

The PVT strategy provides long only equity funds and strategies to institutional and wholesale intermediaries. Institutional clients can access the strategies through funds or segregated mandates. The funds are also available to wholesale intermediaries who distribute to their retail clients.

We have seen some reduction in average margins, due to a change in mix, with strong growth coming from products such as the Smaller Companies Fund and the Equity Dynamic Fund at slightly lower margins than the World Recovery Fund for example.

In the current year, we saw traction build behind the launch of the Global High Alpha Fund with sales of £371m. This shows the ability of the PVT team to apply its skills and processes to a global product. We expect to see continuing demand for this product and are working closely with intermediaries on its distribution both in the UK and overseas.

We also saw good support for the rebranded UK Dynamic Fund, with AUM growing from £8m to £80m during the year.

Investment performance across the PVT equity strategies was negative, reducing divisional AUM by around 5%. The majority of this occurred in the final quarter of the year, as equity markets reacted to the run-up and aftermath of the Brexit vote.

Fund AUM as at 30 June 2016

	AUM £m	Performance quartile ¹	
		YTD	Since inception
R&M UK High Alpha Fund	262	2	2
R&M UK Equity Smaller Companies Fund	605	4	1
R&M UK Equity Income Fund	234	3	1
R&M UK Dynamic Equity Fund	80	2	2
R&M UK Equity Long Term Recovery Fund	114	2	1
R&M World Recovery Fund	167	3	1
R&M UK Micro Cap Investment Company	83	N/A	N/A
Segregated mandates (including Global High Alpha)	813	N/A	N/A
Total AUM	2,358		

1. Performance quartile data against peers from the Investment Association as at 30 June 2016.

Advisory revenues

The Advisory division earns revenues from clients who engage us on a retained fee basis or from fees based on undertaking specific projects. This year we have seen a decrease in advisory revenues as a result of three main drivers:

1. In the prior year the departure of a third-party asset allocation team led to around £1m of additional project revenues. No such event occurred in the current year.
2. Palisades – part of our Advisory business in the US – was sold on 15 December 2015. The advisory revenues booked in Palisades were £1.5m higher in the prior year than the current year. It is worth noting, however, that Palisades generated very little of our profits in the prior year as its ratio of remuneration to revenue was relatively high.
3. As Mike indicates in his Chief Executive's Review, some Derivative Solutions clients have moved from up-front implementation fees (which are booked as advisory fees), to slightly higher continuing management fees.

The split between retainers and project fees was:

£'000	2016	2015
Retainers	3,935	4,711
Project fees	4,970	7,259
Total advisory fees	8,905	11,970

Performance fee revenue

Performance fees are earned in Fiduciary Management and Equity Solutions. This year has seen a fall in performance fees in more difficult markets for return seeking assets.

Fiduciary Management

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

Mike has discussed in his Chief Executive's Review how the performance fees in TIGS are affected by different economic conditions.

In traditional asset management (such as our Equity Solutions division), the performance fee benchmark will closely correlate with the AUM; for example by the use of an equity index to benchmark an equity portfolio.

However in TIGS, generally this benchmark is linked to a cash or fixed income measure. As Mike indicated, this means that moves in the investment fund (risk assets), matching fund (lower risk assets such as gilts) and benchmark are less correlated than traditional asset management.

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 year ended 30 June 2016, £1.2m of performance fees were earned, all from previously deferred performance fees.

Admin expenses growth

<1%

In 2017, we will revisit our IT architecture including disaster recovery, to ensure that we maintain 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.

Remuneration ratio

54%

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 year ended 30 June 2016.

A number of clients have a 'cap and roll' structure relating to performance fees, whereby performance in the calendar year over a cap is carried forward and is added to the investment performance in the following year. Performance fees can be earned if the performance, including the deferred performance from a previous period, is above the benchmark in the subsequent year.

At 30 June 2016 total performance fee eligible assets were £381m. Of these assets £115m were below their performance benchmark by more than 5% and £243m were within 5% of their performance benchmark. £23m were above their benchmark by less than 5%. The weighted average rate of performance fees in respect of outperformance on the eligible AUM is 17%.

Administrative expenses

£'000	2016	2015
Administrative expenses excluding governance	9,084	9,113
Governance costs	706	639
Administrative expenses	9,790	9,752
Total net management and advisory fees	45,669	46,654
Percentage	21%	21%

This year we have continued to invest in growth, including taking an additional floor at one of our offices. Despite this, we have worked hard to drive savings and are pleased that administrative expenses have increased by less than 1% year-on-year (less than 2% when adjusting for the disposal of Palisades).

Under the Transitional Services Agreement (TSA) with Punter Southall, we were 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.

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.

Remuneration

£'000	2016	2015
Fixed remuneration	18,423	18,440
Variable remuneration	7,111	8,476
Total remuneration (excluding EPSP costs)	25,534	26,916
Total revenue (excluding other income)	47,195	52,533
Remuneration ratio (total remuneration excluding EPSP/total revenue)	54%	51%

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

Financial review *continued*

Adjusted underlying
pre-tax margin

24%

Cash

£14.1M

Fixed remuneration is allocated to net management and advisory fees. Variable remuneration is accrued on net management and advisory fees, and performance fees. The accrual rate of 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) to below 50% in the longer term. The increase compared to the prior year is as a result of the lower levels of performance fees in the year.

Statutory and adjusted profits

£'000	2016	2015
Statutory profit before tax	7,236	10,525
Pre-tax margin	15%	20%
Adjusted profit before tax	11,849	15,895
Adjusted pre-tax margin	25%	30%
Adjusted underlying profit before tax	11,084	12,429
Adjusted underlying pre-tax margin	24%	27%
Adjusted profit after tax	9,536	12,693

Adjusted profit before tax represents statutory profit adjusted to add back the amortisation of intangible assets and EPSP costs. 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 and EPSP costs, divided by net management and advisory fees.

The adjusted underlying pre-tax margin for the year ended 30 June 2016 was 24% (2015: 27%). This fall was a result of reduced management and advisory fees. The target in the medium term is to increase the adjusted underlying pre-tax margin to 30%, primarily through increased revenue and a scalable administration and remuneration expense base.

Capital, liquidity and regulatory capital

The business is strongly cash generative, generating net cash from operations of £4.8m. Cash and cash equivalents at year end were £14.1m. Net assets reduced compared to the prior year primarily as a result of the payment of the 2015 second interim and final dividends in the current year and the share purchases through the Employee Benefit Trust (EBT).

As a business regulated by the UK FCA, we 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 30 June 2016, adjusting for the effect of the interim and proposed final dividends and EBT purchases in respect of PSP awards, we have excess qualifying regulatory capital of £7.1m over the requirement set by our ICAAP.

Performance share awards

Employee Benefit Trust

During the year, the Group's EBT purchased 564,000 shares relating to the previous year's PSP awards. The cost of these purchases was £1.3m and is shown in the statement of changes in equity. The weighted average number of shares in issue has reduced as a result of purchases of own shares in the EBT.

During the Group's end of year remuneration process, the Group granted share awards over 1.6m shares, based upon an estimated grant price. All such share awards are not intended to be dilutive.

Earnings per share

7.15 PENCE

Adjusted earnings per share

11.62 PENCE

Dividends per share

9.5 PENCE

EPSP costs

The executive performance share plan (EPSP) awards a variable number of shares to executives upon achieving a compounded Total Shareholder Return (TSR) of between 12% and 30% during the period from the date of the IPO to 30 June 2018.

The EPSP costs in the income statement comprise the IFRS 2 accounting charge for the scheme, and the accrued payroll tax costs related to the awards. The IFRS 2 charge is £452k per annum irrespective of the share price, with the payroll tax costs varying as share price and the number of shares expected to vest changes. Both changes are treated as adjusting items in the calculation of adjusted profits.

Based upon the share price and dividends paid as at 30 June 2016, the compound TSR was 5%, which would result in no shares vesting. However, based upon analyst consensus forecasts, management expects 2.1m shares will vest (43% of the A shares and no B shares). At 30 June 2015, 7.3m shares were expected to vest. The reduction in the number of shares expected to vest in the year has led to a partial release of the accrual for payroll tax expenses giving rise to an EPSP costs charge of £283k in the income statement in the year (compared to an expense in the prior year of £1,037k).

Assuming a dividend yield of 5% per annum, full vesting would occur at a share price of approximately £4.47 at June 2018. If related payroll taxes are 14.3% as expected at this time, this would lead to a payroll tax cost of £4.7m, which would be offset by a corporation tax deduction of £7.1m.

Dividends

On 1 April 2016, an interim dividend of 3.6 pence per share was paid which included a special dividend of 0.35 pence relating to net performance fees. The Directors have declared a second interim dividend of 3.4 pence per share, of which 0.1 pence is a special dividend and relates to net performance fees to be paid on 11 November 2016. In addition, the Directors are proposing to shareholders a final dividend of 2.5 pence per share. Total dividends per share paid, declared or proposed for the year ended 30 June 2016 are 9.5 pence per share, representing 80% of the adjusted underlying profit after tax and 100% of the net performance fee profit after tax.

Kevin Hayes

Chief Financial Officer

Principal risks

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The following table summarises the principal risks and uncertainties considered most relevant to our business. See note 26 to the consolidated financial statements for further information on financial risks.

The Group's outcome orientated approach, which focuses on tailoring solutions using the Group's various skill sets in order to achieve client outcomes, has conduct at its core. Therefore, in assessing the Group's risks, the Directors have considered the FCA's 11 principles for businesses.

Gold cells are those which the Group considers to be the most significant risks in relation to the Group's business model, future performance, solvency or liquidity. Management's view on the change in level of risk since the prior year is also noted.

FCA PRINCIPLE	DEFINITION	RISK AND OUTCOME	MITIGATION
Integrity	<ul style="list-style-type: none"> A firm must conduct its business with integrity. 	<ul style="list-style-type: none"> With the diverse offering that the Group provides, conflicts of interest could arise if not properly managed, undermining the Group's ability to deliver the best outcomes for clients. = Reputation damage could lead to a loss of clients, reduction in AUM and/or NUM and a reduction in the profitability of the Group. = 	<ul style="list-style-type: none"> The client engagement process necessitates identifying actual or potential conflicts of interest between the Group and the client. These conflicts can be understood and discussed with the client and mitigating measures introduced where appropriate. The Group pays due regard to the interest of its clients and puts treating them fairly central and foremost. The Group maintains and operates policies, and organisational and administrative arrangements to identify, monitor, manage and disclose any material conflicts of interest. Our ethos is centred on delivering against the outcomes of our constituents. This fosters a culture of integrity and conduct that is based on engagement with our clients, shareholders, regulators, employees and the broader community. Our reputation is based on the quality of this engagement process.
Skill, care diligence	<ul style="list-style-type: none"> A firm must conduct its business with due skill, care and diligence. 	<ul style="list-style-type: none"> The loss of, or inability to train or recruit, key personnel could have a material adverse effect on the Group's business. = 	<ul style="list-style-type: none"> Policies, procedures and ongoing training covering product and services, Know Your Customer, anti-money laundering, Treating Customers Fairly and other areas of compliance. We have formal processes of training and accreditation to advance and motivate our employees in order to support the continuity of our client engagement business model. Our remuneration structures are designed to motivate and support the development of our employees and provide incentives linked to their individual, divisional and Group performance. Succession plans identify employees with the potential to fill key business leadership positions.

Change: = Same ▼ Down ▲ Up

PRINCIPLE	DEFINITION	RISK AND OUTCOME	MITIGATION
Management and control & Market conduct	<ul style="list-style-type: none"> A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. A firm must observe proper standards of market conduct. 	<ul style="list-style-type: none"> The risk of loss resulting from inadequate or failed processes, people, systems and controls (including from outsource providers) or from external events leading to financial loss, forgone revenue, fines and reputation damage. ⚖️ 	<ul style="list-style-type: none"> Experienced and knowledgeable employees with appropriate segregation of roles and responsibilities. Documented policies and procedures govern workflows, internal control procedures and escalation protocols to achieve predictable outcomes. Insurance covering errors and omission mitigating significant financial loss. Business continuity management programme for the continuity of critical business functions and services. Where the Group outsources operational activities, it chooses parties of an appropriate nature and scale to provide robust controls. The Group's Compliance and Risk Management functions operate alongside the business, and provide guidance and oversight of process and control procedures designed to ensure compliance with governance and regulatory requirements. Measures include a clear, consistent view on risk and risk appetite, proactive and effective monitoring to minimise unexpected incidents, and a comprehensive compliance monitoring programme.
		<ul style="list-style-type: none"> 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. ⬆️ 	<ul style="list-style-type: none"> The Group seeks to develop IT infrastructure diversity, for example in having redundant connections to key data centres. The Group maintains disaster recovery capabilities which include remote working facilities. The Group maintains physical preventions (IT hardware and software) to minimise the risk of successful cyber attack. Systems are subject to periodic penetration testing and staff are regularly reminded to remain vigilant to the risk of attack and how to respond.
		<ul style="list-style-type: none"> The risk of loss resulting specifically from cyber attack, either to gain control of Group systems, or have Group employees make erroneous transactions. ⬆️ 	
Financial prudence & Relations with regulators	<ul style="list-style-type: none"> A firm must maintain adequate financial resources. A firm must deal with its regulators in an open and cooperative way, and must appropriately disclose to the regulator anything relating to the firm of which that regulator would reasonably expect notice. 	<ul style="list-style-type: none"> Significant withdrawals of AUM and/or NUM at short notice and loss of advisory mandates could have an impact on management fees and advisory fees. ⚖️ 	<ul style="list-style-type: none"> The client engagement process gives the Group an opportunity to maintain a relationship across market cycles both in advisory and investment management. The engagement process allows us to understand the risk appetite of the client and operate proactively to respond to a client's changing outcomes.
		<ul style="list-style-type: none"> Sustained underperformance across a range of the Group's products and strategies, or poor general performance in markets could result in reduced management fee and performance fee income. ⚖️ 	<ul style="list-style-type: none"> Our focus on client outcomes aligns us with our clients and results in a business with low attrition rates. This creates a sustainable business which is therefore less subject to cyclical effects. This allows us to grow, attract and retain our client and investment talent. A sustained reduction in AUM and/or NUM as a result of adverse market movements could result in a corresponding reduction in management and performance fee revenue. This may be partly offset by an increase in our advisory revenues as clients re-evaluate their investment and hedging strategies. In the short to medium term we can adjust our cost base, particularly remuneration which is variable with our overall economics. As a regulated entity, the Group and some of its subsidiaries are required to hold minimal levels of capital in order to ensure its sustainability. The Group also maintains an ICAAP document, which examines downside events including revenue declines and the costs of an orderly cessation of the Group; and if appropriate the Group holds additional capital as a result of these tests.
		<ul style="list-style-type: none"> A breach of regulatory requirements could result in fines and sanctions which could diminish the Group's reputation with clients and the market generally. ⬆️ Regulatory changes following any secession from the EU may lead to increased levels of regulatory capital or costs of compliance. ⬆️ 	<ul style="list-style-type: none"> Regulatory changes are monitored by the Group's Compliance and Legal functions and an active dialogue is maintained both with our clients and with regulatory bodies so that we can understand and adapt business model and strategy accordingly. Finance and Compliance functions operate processes and controls to ensure the timely and accurate submission of information to the FCA.

Principal risks *continued*

PRINCIPLE	DEFINITION	RISK AND OUTCOME	MITIGATION
Customer's interests & Communications with clients & Customers: relationships of trust & Client's assets	<ul style="list-style-type: none"> A firm must pay due regard to the interests of its customers and treat them fairly. A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading. A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgement. A firm must arrange adequate protection for clients' assets when it is responsible for them. 	<p>There are a number of risks arising from when we first engage with clients to understand their desired outcomes, and ultimately execute on a strategy in order to achieve these outcomes:</p> <ul style="list-style-type: none"> The client's investment strategy does not meet the client's desired outcomes. This could lead to a loss of clients, failure to win new business and reputational issues. = 	<ul style="list-style-type: none"> The client engagement process is based on engagement with regulatory approved investment professionals and advisors who develop with the client their desired client outcomes. Through our existing client base we have experience from other similar clients that informs us about the general trend in particular segments of our client base. We have a long track record of investment performance which allows us to model for the client's historical and hypothetical performance scenarios under different market conditions which informs our clients of the range of possible outcomes that they could expect relative to their objectives. A regular governance process with clients provides for regular interaction to identify changes in the client's desired outcomes and solicits feedback on the actual outcomes experienced by the client.
		<ul style="list-style-type: none"> The investment performance is not in line with client expectations or investment advice is poor. This could lead to a loss of clients, failure to win new business and reputational issues. = 	<ul style="list-style-type: none"> The Group's Chief Investment Officer oversees the Group's investment views and there is a committee structure in place to support the provision of consistent investment views across the Group. Investment opinions are subject to considerable evaluation and discussion prior to implementation or presentation to clients as appropriate to their form of engagement with the Group. Investment strategies are designed and back tested, and stressed against different historical market events to identify to the client a range of possible outcomes. Investment performance is understood to vary within a range of outcomes and this helps clients understand the characteristics of different strategy options. The governance process with the client provides a regular interaction to report to the client their investment performance against the specified client outcomes. This allows the business to check the appropriateness of the strategy design with clients. The Group fosters a culture that supports a business model, behaviours and practices that have the fair treatment of clients at its core. This requires an open and honest dialogue regarding investment performance relative to the stated outcomes.
		<ul style="list-style-type: none"> Failure to execute the investment strategy in accordance with the stated investment mandate, for reasons including errors and misconduct. This includes managing the liquidity of underlying investments to match IMA redemption requirements. This could lead to direct financial loss, a loss of clients, failure to win new business and reputational issues. = 	<ul style="list-style-type: none"> The investment management process is documented within the investment mandates, including risk limits and concentration limits. Investment guidelines and restriction metrics are monitored against mandate parameters to maintain compliance. Variance triggers and thresholds are in place, and breaches are promptly escalated. Underlying liquidity within funds is monitored, and adjusted as market conditions dictate. Compliance and Risk, which operate alongside the business but have independent reporting lines, act as a second line of defence in respect of the investment management process. A culture of client engagement, based on conduct and fairness, fosters an open and honest dialogue regarding investment performance relative to the stated outcomes.

Change: = Same ▼ Down ▲ Up

PRINCIPLE	DEFINITION	RISK AND OUTCOME	MITIGATION
Conflicts of interest	<ul style="list-style-type: none"> A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client. 	<ul style="list-style-type: none"> As an investment manager and advisor, the Group is at risk of perceived or actual conflicts of interest. These could lead to direct financial loss, a loss of clients, failure to win new business and reputational issues. ⚖ 	<ul style="list-style-type: none"> The client engagement process is driven by the client, which includes the basis of engagement. Across our business we see different levels, from those who wish not to see our investment management offerings in any form, to those who expect to be involved in product development from early stages. By ensuring the engagement is on the client's terms, we eliminate any potential conflicts.

Viability statement

The Directors have assessed the viability of the Group over the next three years and confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due during this period. Whilst the Directors have no reason to believe that the Group will not be viable over a longer period from its assessments, this period is the timeframe which best aligns with the Group's planning view and corresponds to the ICAAP. The assessment of viability has been made with reference to the Group's current position and future prospects as well as its strategy, market conditions, and its principal risks as set out in the Strategic Report.

The Group prepares an annual budget, with higher-level forecasts for years two and three.

As part of the ICAAP, the Group examines the impact of the budget and forecast on the statement of financial position, liquidity of the Group and capital adequacy of the Group. The Group also applies stresses to the budget and forecast to understand their impact on the Group's business model and financial position, including cash balances. These stresses include macroeconomic shocks and downturns and changes in the regulatory environment affecting the Group and its subsidiaries.

Key developments.

This Group's 2016 financial year has seen markets operating under increased levels of macroeconomic and geopolitical risk, culminating in the UK's decision to leave the EU in June.

This has led to increased risk of the Group's Fiduciary Management and Equity Solutions investment management offerings suffering underperformance, although so far this has not materialised.

Additionally, Brexit has highlighted the risks concerning liquidity in products in general following the gating and haircutting of some commercial property funds. The Group largely trades in liquid underlying instruments such as

ETFs and structures less liquid products to have longer redemption lead-times (or as closed-ended products), however where less liquid assets are held, liquidity is monitored and adjusted as necessary, a step which was taken in the run-up to the Brexit vote.

There is also growing regulatory scrutiny and change regarding the asset management and advice industry, both from Europe and the UK, so we continue to monitor this area closely,

and amend training and procedures as appropriate to ensure compliance.

Finally, the coming year is one of significant internal change for the Group including an IT infrastructure refresh. This is designed to ultimately reduce risk, however scrutiny will be applied to ensure that the transition risks are appropriately managed.

Regulatory developments

Our business is directly affected by changes in the regulatory environment, both in the manner in which we conduct business and our interactions with the financial markets.

In April 2016, the FCA published its business plan for 2016–2017 which sets out its priorities and expected outcomes for consumers and markets. We are monitoring these priorities closely and have contributed our views and those of our clients directly to the FCA or through industry forums. Four areas of specific focus have been:

Asset Management Market Study

The FCA's Asset Management Market Study, launched last year as part of a wider wholesale sector competition review, aims to gain a greater understanding of:

- How asset managers compete to deliver value.
- Whether asset managers are willing and able to control costs and quality along the value chain.
- How investment consultants affect competition for institutional asset management.

We contributed to the study and await the final report with interest. In the meantime we have identified a number of areas in which we have improved our engagement with clients and with the market in particular in the area of conflicts of interest.

Pensions

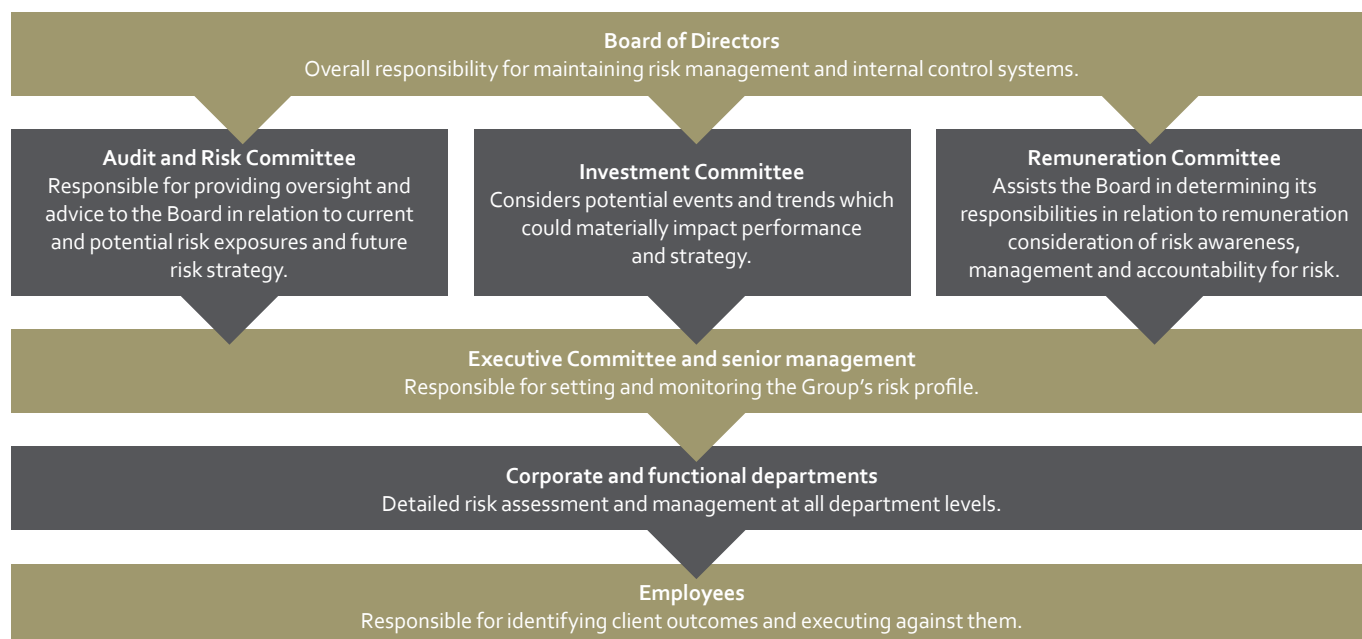
The FCA are reviewing how changes in pensions' policy and demographics will impact consumers and how choices and advice now available will impact the market. The delivery of products that are 'good value for money' and the availability of appropriate advice in relation to them is a continuing focus for us and our clients.

Wholesale financial markets

Competition matters will be an increasing focus of the FCA under their concurrent powers to enforce against breaches of the Competition Act alongside the Competition and Markets Authority (CMA). Accordingly, we have introduced a specific competition policy and training across the Group and will continue to consider how relevant competition concerns need to be taken into account across the business.

Firms' culture and governance

The FCA has noted that good governance and culture contributes to delivering good outcomes for customers and market integrity, and promotes effective competition in the interests of consumers. The FCA expects effective governance arrangements to identify, manage and mitigate risk. Culture and governance continues to be a focus, and the establishment of the Group's Investment Committee and Client Engagement Committee, both chaired by independent Board members, are examples of how the Group are formalising our governance processes.



Approach to risk management

The principal focus of risk management is related to limiting the risk of not delivering the expected outcome to clients. This is in line with our primary focus on delivering strong outcomes for clients. We consider this objective to also be strongly aligned to the outcomes expected by our other constituents: our shareholders; employees; regulators; and the broader community.

This outcome orientated approach to risk management is applied throughout the Group, from the corporate governance structure instilled by the Board through to our employees.

Three lines of defence

The Group uses a 'three lines of defence' approach to risk management. This helps to embed a culture of compliance and conduct within the divisions and operational staff themselves.

First line – this comprises the Chief Executive Officer, business management and staff, and the divisional Chief Operating Officers, who ensure that day-to-day activities are managed in accordance with internal policies and the Group's risk appetite. Additionally, the divisional Chief Operating Officers attend Audit and Risk Committee meetings.

The Group has compliance policies and procedures in place and all employees receive ongoing training to instil a risk and compliance awareness and client orientated culture.

Second line – this comprises the Risk and Compliance functions, who are responsible for identifying, assessing, evaluating, monitoring and reporting on compliance and risk related issues faced by the Group. The Risk and Compliance functions report to the Chief Financial Officer, however with an independent line to the Chief Executive Officer, and the Audit and Risk Committee. Business risks are discussed at Risk Management Committee meetings. For the most part this involves regulatory intelligence and forward-looking risk management.

Processes include assessing the impact to the Group of specific issues, determining their expected likelihood and consequences, and developing and implementing prioritisation and management strategies. In a coordinated and collaborative approach, the Compliance and Risk functions also monitor and provide assurance as to the adequacy and effectiveness of the Group's internal controls.

The Group continues to operate three separate regulated entities, P-Solve Investments Limited, P-Solve LLC, and River and Mercantile Asset Management LLP, each of which has its own Compliance Officer.

Third line – this comprises internal audit to provide assurance over the effectiveness of processes and controls in the Group. The Group does not have a dedicated internal audit function, instead using outside third-party professionals for specific engagements during the year reporting directly to the Audit and Risk Committee.

More information

Further details on the risk management policy including key functions and terms of reference, can be found on the Group's website www.riverandmercantile.com.

Adding value to all our stakeholders.

People

Our people, their development and advancement, are critical to the success of our client-led business. Our business model is based on client engagement. The skills required by our people are a balance of interpersonal and analytical – to listen, understand and act.

As a business we are subject to competitive pressures and this includes the competition for talent. In order to remain competitive we have a talent management philosophy that is linked to attracting, advancing and retaining talented people.

We measure regretted staff turnover as a metric for our success in retaining and rewarding our talent. Regretted staff turnover is measured as the number of staff leaving the firm voluntarily during the year who were graded as performing as expected or better in their previous performance review, as a proportion of the average heads during the year. For 2016 this number was 9%.

Our talent management philosophy is based on:

Principles

Our principles are the things that define what, and who, we are:

Integrity: We understand that any sense of us operating without integrity will destroy our business; clients don't want to engage with people they can't trust.

Authenticity: One of the important things that already differentiates us is our authenticity. Many of our new employees have commented on how genuine they find our people. We encourage a sense that people are straight and clear about what they believe.

Respect: We expect people to be candid with others, this must be done with respect. Our people think about how they frame their views in a way that is respectful to other team members.

Community

Internally, our people are helpful in supporting the good of the organisation and externally, we encourage people to do things that have genuine benefit for others; we aim to make a difference through the things we do, including charitable work and contributions.

Diversity

We value a work force that is diverse. Our recruitment and talent management is based on merit and performance. Of the 197 Directors and employees at period end: one of nine Directors; five of 30 senior managers; and 49 of 167 staff were female.

Values

Values describe the behaviours that the business considers to be critical to success. Behaviour consistent with the values should be rewarded.

Passionate about client success	We expect our people to be passionate about client success. We care about our clients. We gauge this by whether clients believe our commitment.
Creative – involving, challenging and convincing others	Creativity is critical to our client proposition. We aim to keep reinventing ourselves to achieve our business objectives of growth and to avoid becoming commoditised. This is best achieved by bringing together diverse people to debate issues. We therefore seek to hire and advance people who are creative, who involve others to get higher quality input and are comfortable challenging. In debate, we do not recognise hierarchy, only the quality of the argument.
Open, candid and constructive	We expect our people to be open with information and their views. We expect people to be candid, particularly in the management of others and want all interaction to be constructive.
Demanding of our best	We aim to be stretching ourselves and each other, to be the best we can. We are demanding of our people and we are committed to helping them achieve excellence. We expect people to express constructively their disappointment for anything that is mediocre, be it client work, performance or internal processes.
Commercial in all that we do	Commerciality means more than just profitability. We aim to engage in client relationships in a way that works for both the client and our business. Ultimately, commerciality is about how we balance risk and cost against potential reward.

Recruitment

Our policies instil in our hiring managers our commitment to fair and equitable treatment of all employees and applicants in the recruitment process.

Advancement

All employees have an equal opportunity for advancement, including training and development.

Investing

The Group considers issues of stewardship and responsible investing when making investment decisions.

The Group directly invests in equities in its Equity Solutions division. The investment decisions of the division are informed by the division's voting and engagement policy, and UK stewardship code statement, both of which can be found on the Group's website (www.riverandmercantile.com).

The division recognises that its responsibilities as an asset manager extend to having a clear commitment to engagement and long-term active ownership and has worked with a number of clients and other organisations to better understand best practice and how the division can actively contribute and meet its responsibilities in an accountable and conscientious manner.

The Group is conscious that owning a company's shares on behalf of clients confers certain rights and responsibilities. At the same time, environmental, social and governance (ESG) issues, and the management thereof, are integral to the sustainability of a business. For this reason, Equity Solutions considers both ESG issues and stewardship including management attitudes to shareholders when analysing and reviewing a company.



Given that significant issues play-out over the medium to longer term and that clients are invested for the longer term, these issues are considered on a case-by-case basis using a number of principles including:

- accountability of management;
- independence of directors;
- appropriate board appointments and committee structures;
- remuneration philosophy; and
- environmental, social and governance.

Environmental matters: Greenhouse gases

We have offices in London and Boston, US. Our UK client base is predominantly in and around London and in the north of England. Our US client base is predominantly in Boston and New York.

We estimate that 85% of our employees utilise public transport on a daily basis to commute to work. Approximately 10% of our employees cycle to work daily and we have facilities in our office to encourage this activity, including a 'bike to work' scheme.

Our offices have video conference facilities which are used extensively for client meetings to reduce travel for us and our clients. We use standard technology systems so that documents can be transmitted electronically.

Our travel reimbursement policy encourages staff to use public transport, where available, when attending client meetings.

We are conscious of our impact on the environment and have recycling programmes for paper and plastics, and encourage conservation of water and other resources.

In selecting suppliers we consider their environmental policies as a factor in selection. The largest suppliers in the period have been professional service firms.

Carbon neutral

In the prior year, the Group was certified carbon neutral, based upon a calculated emissions figure of 852 tonnes of CO₂, including all travel and commuting. The Group has re-estimated its emissions this year as 903 tonnes on the same basis.

The Group is committed to minimising its impact on the environment and as such fully offsets its emissions in recognised offset schemes, combining green energy funding and forestry protection and renewal.

The Directors are therefore pleased to announce that the Group has once again been certified carbon neutral.

By order of the Board.

Paul Bradshaw
Non-Executive Chairman
10 October 2016

Board of Directors



Paul Bradshaw
Non-Executive Chairman

Paul has a mathematics degree from Nottingham University and is a Fellow of the Institute of Actuaries. He was a founder of Skandia and was Chairman and Managing Director of that business before moving on to various roles with J Rothschild International Assurance Limited (now St James's Place Wealth Management). His executive career was completed as Chief Executive Officer of Abbey (now Santander) Insurance and Asset Management Division. He has had extensive non-executive experience over many years, including Marks and Spencer Money, Perpetual (now Invesco Perpetual) Pensions and GE Life. His current non-executive roles include Sanlam Limited and its UK controlled subsidiaries, and he is Non-Executive Chairman of Nucleus Financial Group.

Committee membership
Remuneration Committee and
Nominations Committee



Angela Crawford-Ingle
Independent Non-Executive Director

Angela is a chartered accountant with extensive audit experience of multinational and listed companies. As a partner at PricewaterhouseCoopers, she specialised in financial services for 20 years – leading the Insurance and Investment Management Division. Retiring in 2008, she is a Partner in Ambre Partners, advising entrepreneurial companies. Angela is a Non-Executive Director of Beazley plc and Swinton Group Limited where she chairs the Audit and Risk Committee and Audit Committee respectively.

Committee membership
Audit and Risk Committee (Chair) and
Nominations Committee



Mike Faulkner
Chief Executive Officer

Mike founded P-Solve in 2001 to offer proactive and strategic advice to pension scheme trustees and corporate clients. P-Solve became one of the first investment consultants in the UK to offer fiduciary management to schemes. He has 25 years of consulting and asset management experience, including senior roles with what is now Willis Towers Watson Limited and Gensec International. Ranked top of Financial News's annual survey of Europe's most influential asset managers in 2011, Mike has a mathematics degree from Imperial College, London.

Committee membership
None



Robin Minter-Kemp
Independent Non-Executive Director

Robin has more than 25 years' experience in the fund management industry, holding senior positions with Henderson Investors and HSBC Asset Management before joining Cazenove Fund Management in 2001. Over the next 13 years, he was instrumental in developing Cazenove's specialised investment business, building external funds under management from £300m to £6.5bn ahead of the business's acquisition by Schroders plc in July 2013. Robin served in the Royal Welsh Fusiliers after Sandhurst.

Committee membership
Audit and Risk Committee, Remuneration
Committee (Chair) and Nominations
Committee



James Barham
Head of Asset Management

James founded River and Mercantile Asset Management (RAMAM) in 2006 with the backing of Pacific Investments Management Limited and was its Chief Executive Officer. He was previously part of the team which floated Liontrust Asset Management plc, where he founded the institutional business. This followed senior roles with Shandwick Consultants and James Capel Investment Management and was Marketing Director for Intermediate Capital Group. James served in the Royal Welsh Fusiliers after Sandhurst.

Committee membership
None



Jonathan Punter
Non-Executive Director

Jonathan founded Punter Southall Group Limited with Stuart Southall in 1988 and is the group's Chief Executive. He has more than 30 years in the actuarial profession, with particular expertise in UK pensions and investment strategy. He is a specialist on the issues surrounding pensions in mergers, buyouts and due diligence deals. A qualified actuary with a mathematics degree from Bristol University, he began his career with Duncan C Fraser, where he was a partner.

Committee membership
None



Jack Berry
Head of Institutional Solutions

Jack established P-Solve's advice capabilities enabling pension schemes to use derivatives in liability-driven investments to hedge their principal risks. With more than 25 years' experience, he is a key point-of-call for trustees and sponsors. Jack began his career at Ernst & Young LLP and then Standard Chartered Bank plc, before running his own corporate finance business in Zimbabwe. He has an accountancy degree from the University of South Africa with a London Business School masters in finance and is a qualified chartered accountant.

Committee membership
None



Peter Warry
Senior Independent Non-Executive Director

Chairman of The Royal Mint, Peter has also served as Chairman of BSS Group plc, Victrex plc and Kier Group plc and has held many board-level roles. A former special advisor to the Prime Minister's Policy Unit, he is an industrial professor at the University of Warwick. An engineering and economics graduate and honorary fellow of Merton College, Oxford, Peter is also a fellow of the Royal Academy of Engineering.

Committee membership
Audit and Risk Committee, Remuneration Committee, Nominations Committee and Investment Committee (Chair)



Kevin Hayes
Chief Financial Officer

Kevin is a proven FTSE 100 CFO with over 20 years' experience leading global financial institutions. Previously at Man Group plc, he was Finance Director and Company Secretary. This followed senior roles with Lehman Brothers Holdings, including International CFO, Head of Productivity and Process, and Capital markets CFO. He started his career with Ernst and Young LLP and was a Financial Services Partner in New York.

Committee membership
None

Corporate governance report

Compliance with the Code

The Board is committed to the principles of corporate governance contained in the UK Corporate Governance Code (the Code), issued by the Financial Reporting Council (FRC) in September 2012. This section of the Annual Financial Report describes how the Company has applied the Main Principles set out in the Code.

The Code is available from the Financial Reporting Council's website at <https://www.frc.org.uk/corporate/ukcgcode.cfm>.

The Board considers that the Company and the Group has complied with the Code.

Board composition

Excluding the Chairman, the Board consists of eight members: four Executive Directors, and four Non-Executive Directors – three of whom are regarded as independent. The Chairman holds meetings with the Non-Executive Directors without the Executive Directors present.

Jonathan Punter is not considered to be independent by virtue of his shareholding and directorship in PSG, a controlling (38.1%) shareholder of the Company. However, the Board considers that appropriate independent challenge is provided by the Independent Directors on the Board and feels that the experience provided by him is invaluable to the Group.

Roles and responsibilities

The Board is responsible for leading and controlling the Group and has overall authority for the management and conduct of the Group's business and the Group's strategy and development. The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls, and for reviewing the overall effectiveness of systems in place), and for the approval of any changes to the capital, corporate and/or management structure of the Group.

Certain matters are specifically reserved for the Board including, for example: approval of the annual operating and capital expenditure budgets and any material changes to them; approval of major capital projects; and appointments to, and removals from, the Board, following recommendations by the Nomination Committee. To achieve its objectives, the Board may delegate certain of its duties and functions to various Board Committees or sub-committees, the Chief Executive Officer and executive management.

The Board has formally defined and documented, by way of terms of reference, the duties and responsibilities delegated to the Board Committees and these are available on the Group's website.

Performance evaluation

All Executive Directors have received regular feedback regarding their performance. At year-end, a process was undertaken to evaluate the Executive Directors individually and as a group against their individual and collective objectives. Details of their individual and collective performance are summarised in the Remuneration Committee Report.

The performance of the Non-Executive Directors during the year ended 30 June 2016 has been reviewed against external benchmarks and in all cases was approved as being continuously effective.

The Independent Non-Executive Directors, led by the Senior Independent Director have assessed the performance of the Chairman during the year ended 30 June 2016 and, having taken account of the views of the Executive Directors, his performance is deemed to be effective and appropriate.

An internal Board and Committee evaluation process was coordinated by the Company Secretary during the year ended 30 June 2016 and sought individual Director's assessments of the Board's effectiveness including strategy development, the decision making process, Board relationships, information flows and the operation of the Board Committees. The review concluded that the overall Board and Committees were operating effectively and to a high standard of governance. The review noted an improvement in the administrative processes supporting the operation of the Board (an area for improvement highlighted in the prior year).

Board and Committee member attendance for the period ended 30 June 2016

In circumstances where Board members cannot attend Board meetings, generally as a result of client commitments, adequate notice has been given and alternative arrangements have been made to solicit the member's views and opinions. Where ad hoc Board meetings have been held for a specific purpose to discuss matters at short notice, all Board members are sent papers and given the opportunity to comment by telephone or email if they are unable to attend at short notice.

Director	Board quarterly	Board ad hoc	Audit and Risk	Remuneration	Investment
Paul Bradshaw	4 of 4	7 of 8		11 of 11	
Mike Faulkner	4 of 4	5 of 8			
Kevin Hayes	4 of 4	8 of 8			
James Barham	4 of 4	7 of 8			
Jack Berry	3 of 4	6 of 8			
Jonathan Punter	4 of 4	7 of 8			
Angus Samuels	2 of 2 ¹	N/A ¹			
Mark Johnson	2 of 2 ¹	N/A ¹			
Peter Warry	4 of 4	8 of 8	6 of 6	11 of 11	4 of 4
Robin Minter-Kemp	4 of 4	5 of 8	6 of 6	11 of 11	
Angela Crawford-Ingle	4 of 4	8 of 8	6 of 6		

1. Angus Samuels and Mark Johnson resigned as Directors on 11 December 2015.

Copies of the Executive Directors' service contracts and letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office 11 Strand, London, WC2N 5HR during normal business hours (Saturdays, Sundays and public holidays excepted).

Committees

The Board has established Nomination, Remuneration, Investment, and Audit and Risk Committees, with formally delegated duties and responsibilities, and written terms of reference.

Copies of these terms of reference, along with further governance information covering conflicts of interest, whistle-blowing policy, securities dealing code, amendment to the Company's Articles of Association and change of control can be found on the Group's website: www.riverandmercantile.com.

Views of shareholders

The Board actively solicits the views of shareholders through face-to-face meetings with major shareholders, investor road shows and ad hoc contact. Additionally, feedback is received via the Group's brokers.

Relationship Agreement

PSG currently holds 38.1% of the issued share capital of the Company. By virtue of the size of its shareholding in the Company, PSG is a controlling shareholder for the purposes of the Listing Rules and was required to enter into an agreement with the Company to ensure compliance with the independence provisions set out in the Listing Rules (Relationship Agreement).

The Relationship Agreement regulates the ongoing relationship between the Company and PSG. The Company and PSG agreed, inter alia, that PSG would be able to nominate two Non-Executive Directors of the Company:

- the first (Angus Samuels) for a fixed term of 12 months from admission of the Company's shares to the premium listing segment of the Official List of the FCA and to trading on the London Stock Exchange plc's Main Market for listed securities (Admission), to terminate automatically after the expiry of such 12-month period unless the Directors determined otherwise; and
- the second (Jonathan Punter) for an initial term of three years from Admission subject to PSG (together with its subsidiary undertakings) holding at least 10% of the ordinary shares in the Company (ordinary shares) following Admission.

The Company also agreed with Pacific Investments Management Limited, and its subsidiary undertakings and controlling shareholder, Sir John Beckwith (together Pacific Investments) that Pacific Investments may appoint one Non-Executive Director to the Board for a fixed term of 12 months from Admission (Mark Johnson). Such appointment would automatically terminate after the expiry of the 12-month period unless the Directors determine otherwise. Pacific Investments exercised its right to appoint one Non-Executive Director, and will therefore have no further appointment rights in the future.

Both Angus Samuels and Mark Johnson stood down at the Company's AGM in December 2015.

The Relationship Agreement enables the Company to carry on its business independently of PSG and its respective Group undertakings and ensure that all agreements and transactions between the Company on the one hand, and PSG and/or any of its respective Group undertakings and/or persons acting in concert with it or its Group undertakings on the other hand, will be at arm's length and on a normal commercial basis.

On 27 March 2014, the Company entered into a transitional services agreement (TSA) with PSG pursuant to which PSG agreed, for a transitional period, to provide certain IT, finance, human resources, facilities management, and legal and compliance services to the Company and its subsidiaries. The services are provided to enable the Company and its subsidiaries to continue to undertake their day-to-day activities. The Company pays PSG for the transitional services on a monthly basis on arm's length terms. All of the services under the TSA have been terminated, except for the provision of IT infrastructure which is expected to be terminated by December 2016.

The Company has also adopted a conflicts policy that provides for both the management of conflicts of interest, which includes the representatives of PSG on the Board, as well as the flow of information concerning the Group to such persons.

The Company has complied with the independence provisions in the Relationship Agreement. So far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with by PSG and its associates and Pacific Investments; and the procurement obligation included in the Relationship Agreement has been complied with by PSG.

Power of Directors in respect of share capital

The Directors may exercise all the powers of the Company (including, subject to obtaining the required authority from the shareholders in general meeting, the power to authorise the issue of new shares and the purchase of the Company's shares). Since its shares were listed on the London Stock Exchange on 26 June 2014, the Directors have not exercised any of the powers to issue or purchase shares in the Company.

Paul Bradshaw

Non-Executive Chairman

Investment Committee report



Peter Warry

Chair, Investment Committee

I am pleased to present the first report of the Investment Committee. The Committee was formed during the year and is composed of the senior investment members from each of the Group's divisions. Our overarching aim is to ensure that solutions implemented across the Group are meeting the needs of our clients and that investment risks are appropriately managed.

The quality of debate and challenge in the investment discussions has been high and we have been able to bring a wide range of different perspectives from across the business. Issues debated have ranged through Brexit, productivity, currency wars and the impact of low/negative interest rates and I think this has been valuable for each of the individual investment areas which have found their views challenged with positive potential for what are already a suite of strong internal teams.

One of the areas that has already yielded particular value is the internal reviews that our dedicated Solutions research team has been conducting on the Group's own products and solutions. This team is mainly responsible for reviewing third-party products and has applied the same rigorous process to our funds, offering a more independent view and new insights for the fund managers. I am confident that over time this review process will return many benefits.

Overall this year has seen a lot of good work although as always there are improvements that we can make in our processes. Over the next year I expect to build on this in evolving the research material produced by the Committee and by conducting further analysis on the aggregate exposures across the Group to understand how we are managing the key risks that our clients face on a day to day basis.

Peter Warry

Chair, Investment Committee

Investment performance as at August 2016:

Annualised Investment Performance by Investment Strategy	1 year (%)		5 years (% p.a.)		Since inception (% p.a.)		Date
	Abs.	Rel. ¹	Abs.	Rel. ¹	Abs.	Rel. ¹	
Fiduciary Management							
TIGS investment fund	28.0%	2.2%	13.4%	1.0%	11.2%	2.2%	01-Jan-04
Dynamic Asset Allocation	11.3%	6.7%	N/A	N/A	6.3%	1.8%	02-Sep-14
Derivative Solutions							
Structured Equity	7.1%	3.3%	7.9%	2.2%	6.5%	1.2%	31-Dec-05
Equity Solutions							
World Recovery	20.6%	(5.3%)	N/A	N/A	16.8%	5.3%	04-Mar-13
Global High Alpha	N/A	N/A	N/A	N/A	(1.4%)	0.5%	12-Aug-16
UK High Alpha	8.0%	(3.7%)	14.4%	4.8%	7.7%	2.2%	28-Nov-06
UK Long Term Recovery	9.1%	(2.7%)	16.1%	6.6%	13.4%	5.4%	17-Jul-08
UK Smaller Companies	5.9%	0.8%	22.7%	12.2%	12.5%	7.0%	30-Nov-06
UK Income	6.6%	(5.1%)	12.4%	2.9%	14.0%	1.8%	03-Feb-09
UK Dynamic Equity	8.1%	(3.7%)	14.5%	4.9%	6.7%	1.7%	22-Mar-07
UK Equity Micro Cap Investment Company	15.55%	10.45%	N/A	N/A	13.53%	4.8%	02-Dec-14

1. Relative performance compared to benchmark.

The function of the Investment Committee is to ensure that solutions implemented across the Group are meeting the needs of our clients and that investment risks are appropriately managed. In this regard the Investment Committee focuses on a number of key areas:

1. Considering and discussing potential future economic/political events and trends which could materially impact investment performance and strategy.
2. Providing oversight of all financial products offered by the Group, in particular monitoring their performance, conformity with stated objectives and their available capacity. Providing oversight of new product development and initiating research in support of this.
3. Monitoring investment risk within the Group to ensure that the Group's aggregated investment positions are appropriate and understanding inconsistencies between investment decisions adopted by different parts of the Group. Monitoring third-party exposures to fund managers and custodians.

Audit and Risk Committee report



Angela Crawford-Ingle
Chair, Audit and Risk Committee

I am pleased to present the report of the Audit and Risk Committee and I would like to thank all the members of the Board and management for their cooperation and assistance during the year.

2016 represented the second full year of operation as a listed company, and our focus of work reflected this. During the year, the Group terminated the provision of finance function services under the TSA and acquired a new general ledger and supporting systems in order to improve the Group's reporting environment. The Committee considered this transition in detail.

Additionally, the Committee commissioned two pieces of internal audit work on an outsourced basis. The first covers the use of derivatives in the Group and their surrounding controls. The second focused on the operation of compliance within the business and has led to improvements in practices to maximise the embeddedness of the compliance culture and ultimately increase the robustness of the first line of defence.

Meeting attendance

The Committee met six times. During the year (and reflecting the additional focus on an embedded compliance culture) the divisional COOs have started to regularly attend meetings to answer questions and brief the Committee on areas of significance to their divisions. This has allowed the Committee to address items in more detail during the meetings where appropriate, improving both our understanding of issues and our speed of response.

I have been reassured by the diligence with which the COOs and other attendees address risk, and I am pleased by the independent mind-set displayed by the other Committee members.

Financial reporting

As ever, a key matter for the Committee was ensuring that the Group's financial reporting was reliable and appropriate and that the Code requirements of fairness, balance and understandability are met.

In order to achieve this, the Committee considered reports from management and BDO LLP – the external auditors – relating to the Annual and Interim Reports, and trading updates. The Committee also considered reports on accounting technical matters and the financial reporting process, including the review and approval of the timetable and deliverables for the Annual and Interim Reports.

The reports from BDO LLP included updates on audit plans, fees, audit quality, auditor independence and any internal control matters which required improvement. Where such improvements were noted, management responses were elicited, and delivery of changes monitored.

Significant issues

The Committee has considered a number of significant financial issues and judgements during the year which impact this Annual Report, including:

Accounting for employee and Director share schemes

The Group has a number of share schemes, including the EPSP for Directors and PSP for all staff. The EPSP awards a variable number of shares based upon achievement of certain TSR objectives between 27 June 2014 and 30 June 2018. In the prior year, 100% of the awarded shares were expected to vest. However, as a result of changes in the Group's share price during the year, the current expectation is that a reduced number of shares (43%) is expected to vest. This results in a fall in the charge to the income statement as a result of partially releasing the previous year's National Insurance accruals. The Committee considered reports from management on the accounting treatment and nature of the objectives under the plans. It also considered reports from management covering the Group's share price performance both up to and since the reporting date, as well as analyst forecasts and estimates, and the level of share trading and the make-up of the Group's share register.

Viability statement

The requirement to provide a viability statement is new this year. It relies upon an assessment of the Group's ability to continue in operation and meet its liabilities as they fall due. This assessment is predominantly a financial one, with links to the key risks which the Group faces. As a result, the Committee has played a key role in its review and challenge – both of the assessment itself and of work undertaken as part of the ICAAP process which informs the assessment.

Revenue recognition

Incorrect recognition of revenue is a risk in any business. Whilst the Group's contracts are generally similar to each other in nature and do not contain complex terms or arrangements which would increase the scope for fraud and error the Committee reviews both the accounting policies surrounding revenue recognition and reports from management on the controls and processes in place to ensure accurate reporting of revenue.

Impairment of investments and intangibles

The Group has a number of investments at an individual entity level as well as goodwill and intangibles on consolidation. The Committee reviews periodic reports from management as to indications of impairment and the results of impairment testing, to ensure that management's assertions as to the recoverability of carrying values are supportable.

Completeness of cost and contingent liabilities and provisions

Cost completeness is a key risk in all businesses. The Committee has reviewed significant business matters and areas subject to estimation during the year, to ensure the inclusion of related costs in the correct accounting period as well as the need for any additional cost recognition or disclosure.

The Committee considers that the Group has adopted appropriate accounting policies and made appropriate estimates and judgements.

Audit and Risk Committee report continued

The external audit process

The reappointment of BDO LLP was approved by shareholders at the 2015 AGM. During the year, our Audit Partner changed as a result of partner rotation. The Committee has reviewed and approved BDO's engagement letter and are satisfied as to the adequacy of the scope of the audit. The Committee also reviewed and approved BDO's remuneration and their effectiveness, and details of the non-audit services they provided.

The non-audit services comprise preparation of the Group's tax computations. The Committee considered this provision to be in the Group's interest as the BDO tax team have significant historic knowledge of the tax matters relevant to the Group. The fees are de minimis in value in comparison to the audit fee and are undertaken by a separate team within BDO who are subject to information barriers to safeguard their independence. As a result, the Committee are comfortable that such non-audit services did not compromise BDO's independence as auditors. Details of the fees paid to BDO during the year can be found on page 64.

The Committee has considered the implementation of European Audit reforms. BDO was appointed on IPO in 2014 and therefore a re-tender will be carried out during the year ended 30 June 2024 at the latest. The Committee continues to monitor the provision of external audit services and will tender for other providers earlier than 2024 if appropriate. The Committee will consider the FRC's Ethical Standard with regards to the provision of non-audit services in 2017.

Internal audit

The Group does not have a dedicated internal audit function. The Committee continues to consider the issue and currently believe that, based upon the size and complexity of the organisation, the appropriate approach is to rely upon the work performed by the Group's Risk and Compliance functions, as well as engaging third parties to perform specific engagements on areas of risk which have been identified. During the year, these included the controls within the Group's Derivative Solutions division and regulatory compliance.

Annual Report

The Committee has reviewed the content of the Annual Report and financial statements and advised the Board that, taken as a whole, it is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Angela Crawford-Ingle

Chair, Audit and Risk Committee

Remuneration Committee report



Robin Minter-Kemp
Chair, Remuneration Committee

Dear shareholder

I am pleased to present the Remuneration Committee Report. Our remuneration philosophy and policy sets out our approach to rewarding both our Executive and Non-Executive Directors. This includes our aim that overall levels of remuneration should be fair in determining levels of compensation in relation to annual and long-term objectives set for key individuals. This forms the basis of our reward structure in considering performance relative to expected outcomes. The policy we have operated throughout the year was approved by shareholders at the 2015 AGM.

We continue to believe – as a business that practices outcome orientated solutions for our clients – that we strive to link individuals' and divisions' performances against achieving expected outcomes. This can be achieved through a range of incentives to ensure we retain key staff as we will always be subject to competitive pressures.

We believe that employees are far more concerned that reward is fair than almost anything else. If reward is lower, but it is driven by economics, people will understand provided that management are also included. People like clarity and a clear rationale for how the business arrived at their numbers.

For this reason, our reward structures provide a relatively significant level of clarity to individuals around how we arrive at relevant financial metrics. Accordingly we often go further, being generally prepared to offer leadership within business lines with some significant influence over the form of reward structure they want to adopt for their businesses. This level of choice is also important in creating engagement.

There have been a series of well-documented views from individuals on reward over the years, leading many people to think 'you get what you incentivise'. It is difficult to imagine a single individual where the creation of an incentive structure made someone work harder to achieve results than otherwise. It is more likely that great people will perform well in any event, but they do need to know that the business will not renege on a fair deal often based on bad historical experiences. An aligned incentive structure is unlikely to get a weak person to deliver results but the absence of alignment in reward structure can build frustrations for everyone.

In our experience great people are the easiest individuals with whom to have reward conversations. This is because, if reward is structured fairly, they already know what the answer is and understand it.

There have been no changes to the policy framework or structure this year, so therefore it is not represented in full in this Annual Report. Mark Johnson and Angus Samuels have ceased to attend the Remuneration Committee meetings following their departures from the main Board at the last AGM. There have been no other changes to the membership of the Committee.

Key pay decisions 2016

The two main key proposals that differ from last year are:

1. Adjustment to variable pay in recommending performance-based remuneration awards to Mike Faulkner (CEO), Kevin Hayes (CFO), Jack Berry (Head of Institutional Solutions) and James Barham (Head of Investment Management).
2. Recommendation to increase Non-Executive fees following a once every three-year benchmarking review.

2016 business outcomes

The 2016 strategic objectives are detailed on page 3. They are:

- Strong organic growth in Fiduciary Management and Advisory.
- Equity Solutions mandates to grow – wholesale and institutional.
- Derivatives Solutions growth further fuelled through consultant relationships.
- New product launches to accelerate growth.
- Deliver outcome orientated returns for shareholders.

In addition the Executive Directors performance were assessed against individual key objectives and deliverables set for the financial year ending June 2016 covering the following areas:

- financial;
- business development;
- client relationship management;
- investment/proposition development;
- efficiency;
- people;
- governance;
- personnel development; and
- implications for compensation.

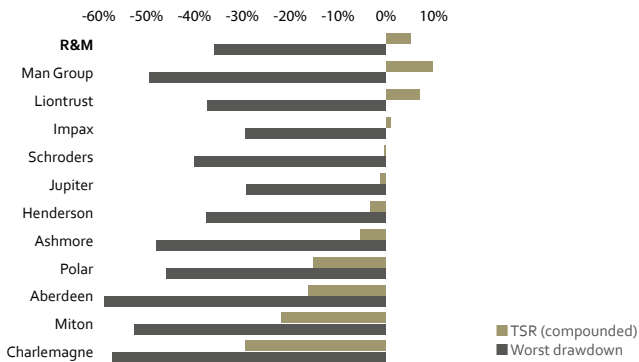
The key business and financial highlights were as follows:

- Despite volatility in equity markets leading up to and following the EU referendum vote the Group achieved strong positive performance for its Fiduciary Management clients – growing and protecting investment values by achieving strong risk-adjusted performance.
- The Group has achieved positive net asset flows in all divisions, compared to the majority of our competition.
- Mandated AUM increased 17% during the year, with margins remaining stable.
- Despite share price volatility and falls in June, the Group has delivered TSR since inception of 7%, ahead of many peers and benchmarks (see box on next page).
- Successful growth of new products such as Global High Alpha and the rebranded Equity Dynamic Fund.
- 11% growth in net management fees, after adjusting for the exit of the global thematic equity strategy.

The less successful outcomes were the reduction in performance fees, mainly as a result falling fixed income yields as discussed in Mike's report and the drop in advisory fees of 16% (excluding Palisades which was sold in the year). These items resulted in a reduction in adjusted earnings of 25%, however as discussed in the Chief Executive's Review, AUM and in-force revenue is well positioned for growth in 2017.

Remuneration Committee report *continued*

Share price performance (June 2014–June 2016)



Based upon the performance highlighted above and the specific performance assessment of Executive Directors on key criteria including judgement, governance and commercials, the Committee determined that all had exceeded expectations, to varying degrees. However, careful consideration was given to the structure of remuneration for Executive Directors due to:

1. the fall in revenue and underlying margin for the reasons already presented in the Chief Executive Officer's Review and the Financial Review; and
2. the strong position of in-force revenue and its potential impact in future periods.

The summary of the key remuneration decisions are as follows:

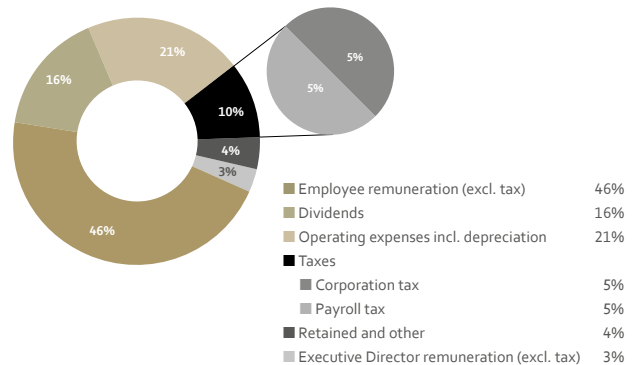
- The Committee awarded Mike Faulkner (Chief Executive Officer) £385,000 of equity variable compensation.
- The Committee awarded Kevin Hayes (Chief Financial Officer) £310,000 of cash variable compensation.
- The Committee awarded James Barham (Head of Investment Management) £300,000 of cash variable compensation.
- The Committee awarded Jack Berry (Head of Institutional Solutions) £200,000 of equity variable compensation.
- The Chairman received a remuneration increase from £70,000 to £110,000 to take effect from 1 July 2016.
- The Non-Executive Directors received remuneration increases averaging 27% to take effect from 1 July 2016.

Group remuneration ratio

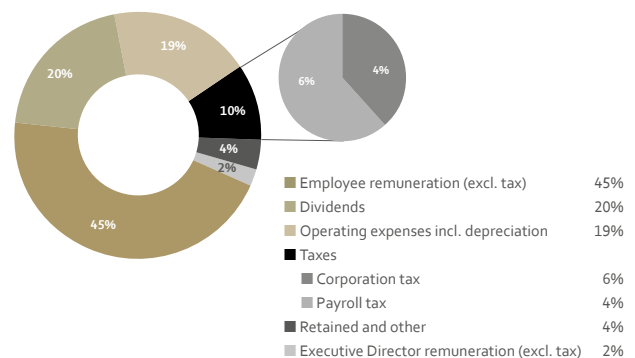
Previously, the Directors stated that the ratio of remuneration to revenue would trend to 45–50% by June 2017. In the Group's 2016 Interim Report, we indicated that based upon the growth in the business and opportunities to invest, this ratio would be held at around 54% of net management and advisory fees and 50% of performance fees in the medium term. It continues to be our aim that remuneration ratios decrease in the longer term, as operating leverage is available.

The chart below illustrates how the Group's adjusted revenue and expenses are distributed to stakeholders, including staff and Executive Directors.

2016



2015



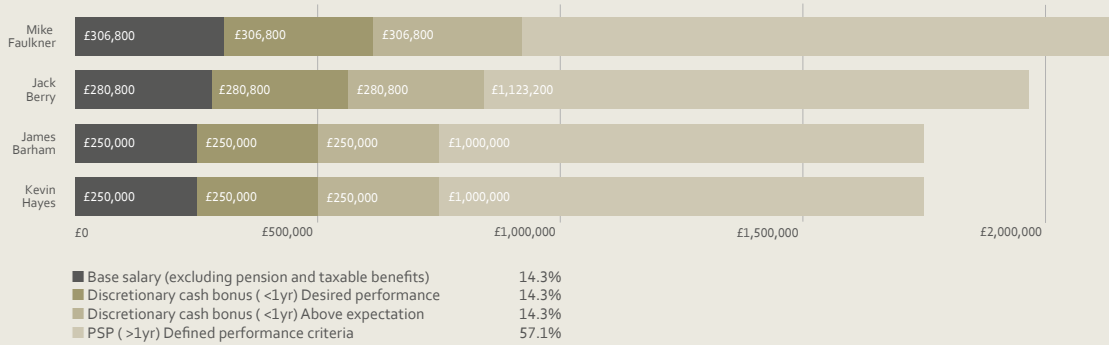
Robin Minter-Kemp
Chair, Remuneration Committee

Remuneration policy

As there have been no changes to the policy since its adoption at the Group's AGM held on 23 October 2014, it has not been reproduced in full in this Annual Report. Instead it can be found on the Group's website www.riverandmercantile.com.

Executive Director remuneration comprises base salary, pension and other benefits, cash and PSP bonus, and EPSP.

The chart below shows the relative split of fixed elements of remuneration, annual cash bonus award and PSP in line with the current policy. The chart was calculated based upon the contractual agreements with Directors and excludes EPSP.



£	Taxable benefits	Pension	Minimum	Maximum
Mike Faulkner	2,279	–	308,279	2,149,079
Jack Berry	2,279	24,675	307,754	1,992,554
James Barham	8,042	7,500	265,542	1,765,542
Kevin Hayes	2,279	12,500	264,779	1,764,779

Executive Directors are assessed against business deliverables, governance and succession.

The EPSP awards executives shares in the Group for achieving a compound annual TSR of between 12% and 30% between 26 May 2014 and 30 June 2018. The higher the TSR, the more shares are awarded subject to a maximum of 7,306,486 shares in total. The shares are then subject to a one year lockup, during which time the Directors must remain employed.

Annual report on remuneration

Single figure remuneration

Executive Directors

£	Year ended 30 June 2016					Total
	Base salary	Taxable benefits ²	Annual bonus ³	Performance shares award ⁴	Pension contribution ⁵	
Mike Faulkner	306,800	2,676	–	–	–	309,476
Jack Berry	280,800	2,676	–	–	28,080	311,556
James Barham	250,000	8,929	300,000	–	7,500	566,429
Kevin Hayes	250,000	8,926	310,000	–	25,000	593,926

£	Year ended 30 June 2015					Total
	Base salary	Taxable benefits ²	Annual bonus ³	Performance shares award ⁴	Pension contribution ⁵	
Mike Faulkner	306,800	2,279	–	–	–	309,079
Jack Berry	280,800	2,279	–	–	24,675	307,754
James Barham	250,000	8,042	–	–	7,500	265,542
Kevin Hayes	250,000	2,279	–	–	12,500	264,779

Chairman and Non-Executive Directors

£	Year ended 30 June 2016	
	Base fees	Additional fees ⁶
Paul Bradshaw	70,000	–
Angela Crawford-Ingle	32,500	7,500
Mark Johnson (resigned 11 December 2015) ¹	15,587	–
Robin Minter-Kemp	32,500	7,500
Jonathan Punter	32,500	–
Angus Samuels (resigned 11 December 2015) ¹	16,250	–
Peter Warry	32,500	27,500

£	Year ended 30 June 2015	
	Base fees	Additional fees ⁶
Paul Bradshaw	70,000	–
Angela Crawford-Ingle	32,500	22,500
Mark Johnson	32,500	–
Robin Minter-Kemp	32,500	7,500
Jonathan Punter	32,500	–
Angus Samuels	32,500	–
Peter Warry	32,500	10,000

1. Remuneration is for the financial year or, if applicable, from the date of appointment or resignation.
2. Taxable benefits consist of life assurance, critical illness cover and private medical insurance.
3. Annual bonus is gross cash paid or payable in respect of the financial year.
4. Performance shares award is the value of awards vesting during the year, including any dividends earned.
5. Pension contribution includes cash allowances and contributions made to self-invested personal pensions.
6. Non-executive additional fees include fees for Board Committee positions.

Executive Director remuneration

Base salaries and taxable benefits

There have been no changes to Executive Director base salaries since 1 July 2014. Benefits provided to Directors are in line with benefits provided to other employees. The Chief Executive Officer's base salary has not increased since the prior year. Average employee base salaries have increased approximately 8% compared to the prior year.

Pension contributions

Jack Berry receives a cash allowance equivalent to 10% of base salary per annum.

James Barham participates in the River and Mercantile Group pension scheme. He makes a contribution of 3% of base salary, which the Group matches.

Kevin Hayes received a contribution into a SIPP account equivalent to 10% of base salary per annum. In April 2016, this was altered to become a cash allowance at the same rate.

Annual bonus and performance share awards

Under the terms of the remuneration policy, Executive Directors are eligible for cash awards, or shares issued under the PSP programme.

Cash bonuses

James Barham was awarded a cash bonus of £300,000 in respect of the year ended 30 June 2016.

Kevin Hayes was awarded a cash bonus of £310,000 in respect of the year ended 30 June 2016.

In the prior year, no Executive Director received a cash bonus.

PSP awards

In the prior year, no Executive Director received a PSP award. In the current year the following awards were made:

1. Mike Faulkner – Chief Executive Officer

Mike Faulkner received a PSP award of £385,000, which will vest in full if a compounded TSR of 12% per annum is achieved by June 2019 compared to the closing share price as at 30 June 2016. If this is not achieved at 30 June 2019, the share price required to give a 12% per annum TSR over the period is calculated. If this price is achieved at any point in the subsequent two years, the award will vest at this point, otherwise it will forfeit. In all cases the Director must be employed at the vesting point. As the performance criteria relate to future performance from 1 July 2016, this award is not included in the June 2016 financial statements.

2. Jack Berry – Head of Institutional Solutions

Jack Berry received a PSP award of £200,000, which will vest in full if a compounded TSR of 12% per annum is achieved by June 2019 compared to the closing share price as at 30 June 2016. If this is not achieved at 30 June 2019, the share price required to give a 12% per annum TSR over the period is calculated. If this price is achieved at any point in the subsequent two years, the award will vest at this point, otherwise it will forfeit. In all cases the Director must be employed at the vesting point. As the performance criteria relate to future performance from 1 July 2016, this award is not included in the June 2016 financial statements.

EPSP

The Group adopted the Executive Performance Share Plan on 2 June 2014. The EPSP has been approved by the Remuneration Committee and was unanimously approved by all the Directors of the Board. The terms of the EPSP are detailed on page 65.

The Directors consider that the performance conditions represent a significant challenge for executives and senior management to attain, and that these conditions can only be achieved through the successful, long-term execution of the growth strategy of the Group. The successful implementation of this growth strategy is measured on an absolute basis by the returns experienced by shareholders measured by both the increase in the value of their shareholdings in the Company and the cash returned to them in the form of dividends and other distributions, including share buybacks.

The Board considers the hurdle at which vesting starts to be the minimum expected outcome for shareholders of the Group. Below this hurdle, no performance shares vest. Above this hurdle, the executives start to share, with the shareholders, in the excess returns generated. Above the higher hurdle the excess returns go to the shareholders (including the Executive Directors as shareholders in the vested performance shares).

The Board considers that the performance criteria therefore directly align the reward for performance of the executives with the investment performance directly experienced by shareholders. A total of 903,048 Performance A awards have not been allocated.

The Directors do not intend any additional grants to be awarded to the existing Executive Directors under the EPSP and these shares are reserved for future potential allocation to new Executive Directors or senior management.

During the year ended 30 June 2016, there have been no changes in the EPSP. The tables on the next page show the EPSP awards granted and their valuation.

Annual report on remuneration *continued*

	Years ended 30 June 2015 and 30 June 2016	
	Opening shares	Closing shares
Performance A awards		
Mike Faulkner	820,954	820,954
Jack Berry	1,395,621	1,395,621
James Barham	1,231,430	1,231,430
Kevin Hayes	1,395,621	1,395,621
	4,843,626	4,843,626
Performance B awards		
Mike Faulkner	1,231,430	1,231,430
James Barham	1,231,430	1,231,430
	2,462,860	2,462,860
Total EPSP awards	7,306,486	7,306,486
Executive Performance Share Plan		
Fair value/grant date share price	£ 0.38	£1.83
Performance A awards		
Mike Faulkner	311,962	1,502,345
Jack Berry	530,335	2,553,986
James Barham	467,943	2,253,516
Kevin Hayes	530,335	2,553,986
	1,840,575	8,863,833
Fair value/grant date share price	£ 0.17	£1.83
Performance B awards		
Mike Faulkner	209,343	2,253,516
James Barham	209,343	2,253,516
	418,686	4,507,032

The fair values of the performance shares at grant date were calculated by EY LLP.

The EPSP is structured to align vesting to the TSR received by shareholders during the vesting period. The table below illustrates for several TSR scenarios, how the vesting value attributable to Executive Directors compares to shareholder return (share price appreciation from IPO price plus distributions). It assumes a dividend yield of 5% and is for illustrative purposes only.

TSR	Shareholder value creation £'000	EPSP value at vest £'000			% of shareholder value creation		
		A shares	B shares	Total	A shares	B shares	Total
12%	211,069	–	–	–	0.0%	0.0%	0.0%
24% ¹	286,441	17,822	–	17,822	6.2%	0.0%	6.2%
30% ²	330,065	21,712	11,040	32,753	6.6%	3.3%	9.9%

1. 24% TSR leads to vesting of all A awards.
2. 30% TSR leads to vesting of all A and B awards.

Review of Chief Executive Officer's compensation

The Chief Executive Officer's cash bonus is unchanged from £nil in the prior year. The total variable compensation of the Group has decreased from £8.5m to £7.1m during the same period, a decrease of 16%.

Year	Chief Executive Officer's single figure remuneration £	Annual bonus payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2014 (six months)	7,801,260	100%	100%
2015	309,079	0%	N/A ¹
2016	309,476	21% ²	N/A ¹

1. No shares were due to vest during 2015 or 2016.
2. PSP awards, not included in single figure remuneration as unvested at year-end.

Non-Executive Director remuneration

The single figure remuneration table on page 46 shows the total remuneration of the Non-Executive Directors paid during the years ended 30 June 2016 and 30 June 2015.

Jonathan Punter, Angus Samuels and Mark Johnson were shareholder representatives and their fees were paid directly to the respective shareholding entity.

Non-Executive Director fee review

The Non-Executive Directors' fees were set prior to Admission based on fees for comparable listed companies and after consultation with the major shareholders.

Following updated benchmarking against comparable companies, Non-Executive Director fees will be increased from 1 July 2016.

£	Previous	New
Base fees		
Chairman of the Board	70,000	110,000
Non-Executive Director	32,500	42,500
Additional fees		
Senior Independent Director	10,000	10,000
Chairman of Audit and Risk Committee	7,500	8,000
Chairman of Remuneration Committee	7,500	8,000
Chairman of Investment Committee	N/A	8,000
Chairman of Client Engagement Committee	N/A	8,000

Summary of remuneration and distributions

£m	Year ended 30 June 2016	Year ended 30 June 2015	Movement
Total remuneration	25.5	26.9	(1.4)
EPSP expense	0.3	1.0	(0.7)
Distributions to shareholders in respect of period	7.8	10.7	(2.9)
Distributions to shareholders recorded in period	9.9	5.7	4.2

Personal shareholding policy

The Company does not have a specific policy with regards to minimum share holdings by Executive or Non-Executive Directors. The table below shows the shareholding of the Executive and Non-Executive Directors as 15 September 2016, 30 June 2016 and 30 June 2015:

Shareholding	15 September and 30 June 2016		30 June 2015	
	Number of ordinary shares	Percentage of issued share capital	Number of ordinary shares	Percentage of issued share capital
Mike Faulkner	3,706,823	4.52%	3,706,823	4.52%
Jack Berry	2,210,619	2.69%	2,211,206	2.69%
James Barham	1,095,843	1.33%	1,095,843	1.33%
Kevin Hayes	252,865	0.31%	193,932	0.24%
Paul Bradshaw	13,661	0.02%	13,661	0.02%
Angela Crawford-Ingle	13,661	0.02%	13,661	0.02%
Robin Minter-Kemp	25,269	0.03%	13,661	0.02%
Jonathan Punter ¹	–	0.00%	–	0.00%
Peter Warry	13,661	0.02%	13,661	0.02%

1. Jonathan Punter has 7.4% interest in PSG. PSG has a 38.1% interest in the Company following Admission.

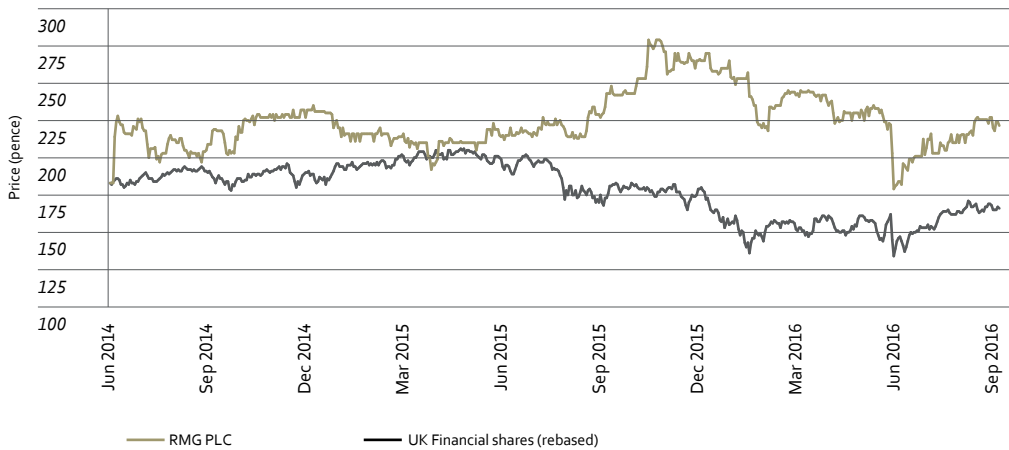
Annual report on remuneration *continued*

Views of shareholders

Views of shareholders are discussed in the Corporate Governance Report.

Share performance

The graph below shows the performance of the Company's shares since IPO, compared to the UK financial sector.



Compliance and risk management in remuneration

The Chairman of the Committee also serves on the Audit and Risk Committee.

The Group's remuneration policies and practices take account of applicable law and regulations, corporate governance standards, best practice and guidance issued by regulators and by representative shareholder bodies.

Accordingly, the Group's EPSP provides that, at the discretion of the Committee, deferred awards may be reduced or lapsed in the event of a material misstatement of the Group's financial results or misconduct by an individual. Employees had signed or were covered by the Share Dealing Code that restricted the sale or hedging of their shares in the Company for a period of two years from the date of Admission, which ended in June 2016.

Outlook for 2017

The Committee intends to support the measurement of Executive Director performance in 2017 using a number of weighted criteria, to determine the annual short-term incentives, subject to maximums as outlined in the remuneration policy. Each weighting will be allocated to reflect each Executive Director's objectives and strategic contribution.

Short-term incentives – judgemental criteria

Talent development
Client engagement
Governance

Short-term incentives – budget delivery and strategic criteria

Budgeted revenue
In-force revenue
Budgeted sales
Pipeline
Strategic objectives

Short term incentives – excess delivery criteria

Judgemental criteria excellence
Budget outperformance objectives

Approved and signed on behalf of the Board:

Robin Minter-Kemp

Chairman of the Remuneration Committee

Directors' report

The Directors present their report incorporating the Corporate Governance report on pages 38–39, together with the audited consolidated financial statements of River and Mercantile Group PLC (the Company) and its subsidiaries (collectively, the Group) for the year ended 30 June 2016.

The Company is incorporated in England and Wales under registered number 04035248 and with its registered office at 11 Strand, London, WC2N 5HR.

Directors

The current Directors are listed with their biographies in the Governance section on pages 36–37. The names of those Directors along with names of the persons who, at any time during the financial year were Directors, and the date of their appointment to the Board of Directors is set out below.

Director	Date of appointment	Date of resignation
James Barham	27 March 2014	–
Jack Berry	30 June 2009	–
Paul Bradshaw	27 March 2014	–
Angela Crawford-Ingle	29 May 2014	–
Mike Faulkner	30 June 2009	–
Kevin Hayes	15 April 2014	–
Mark Johnson	27 March 2014	11 December 2015
Robin Minter-Kemp	12 May 2014	–
Jonathan Punter	30 June 2009	–
Angus Samuels	30 June 2009	11 December 2015
Peter Warry	1 June 2014	–

Each of the Directors will stand for re-election on an annual basis.

Strategic Report

For the purposes of Disclosure and Transparency Rule 4.1.8, this Directors' report combined with the Strategic Report comprises the Management Report.

Conflicts of interest

The Companies Act 2006 (the Act) imposes a duty on Directors to avoid a situation in which they have, or could have, a conflict of interest or possible conflict with the interests of the Company.

The Company has adopted a policy relating to the handling by the Company of matters that represent conflicts of interest, or possible conflicts of interest, involving the Directors. The Board will review regularly all such matters and the Company's handling of such matters, save that only Directors not involved in the conflict or potential conflict may participate in any discussions or authorisation process.

Dividends

The Directors have proposed a final dividend of 2.5 pence per ordinary share (2015: 3.6 pence). Payment of this dividend is subject to approval by shareholders at the Company's 2016 AGM and, if approved, will be paid on 14 December 2016 to shareholders on the register at the close of business on 25 November 2016.

Capital structure and related matters

The capital structure of the Company is detailed on page 75 of this report and this information is, accordingly, incorporated into this report by reference.

There have been no changes in the capital structure during the year.

The Company is subject to the UK City Code on Takeovers and Mergers.

Each ordinary share in the capital of the Company ranks equally in all respects. No shareholder holds shares carrying special rights relating to the control of the Company. However, the Company has entered into a Relationship Agreement with Punter Southall Group Limited in connection with the exercise of their rights as major shareholders in the Company and their right to appoint Directors to the Board. The Company has also entered into an agreement with Pacific Investments relating to the appointment of a Director. These agreements are further detailed in the Corporate Governance Report in the Relationship Agreement section on page 39.

Auditor

BDO LLP, the external auditor of the Company, has advised of its willingness to continue in office and a resolution to reappoint it will be proposed at the forthcoming AGM.

Directors' report *continued*

Substantial shareholdings

As at 15 September 2016, the Company had received the notifications of control of 3% or more over the Company's total voting rights and capital in issue as set out below:

	Number of ordinary shares	% of total issued share capital	Direct/indirect
Punter Southall Group Limited	31,302,321	38.13	Direct
Aviva Investors	6,148,710	7.49	Direct
Sir John Beckwith (Pacific Investments)	5,252,163	6.40	Direct
Unicorn Asset Management	5,248,190	6.39	Direct
Mike Faulkner	3,706,823	4.52	Indirect
Legal & General Investment Management	3,244,611	3.95	Direct
Beckwith Investment Management Limited	3,130,990	3.81	Direct

Audit information

So far as the Directors are aware, there is no relevant audit information of which the auditor is unaware. The Directors have taken all reasonable steps to ascertain any relevant audit information and ensure the auditor is aware of such information.

Directors' indemnities

The Company's Articles of Association permit the provision of indemnities to the Directors. In accordance with the Articles of Association, qualifying third-party indemnity provisions (as defined in the Act) are in force for the benefit of Directors and former Directors who held office during the year to 30 June 2016 and up to the signing of the Annual Report. In addition, during the year the Company has maintained liability insurance for Directors.

Approval of Annual Report

The Corporate Governance Report, the Strategic Report and the Directors' Report were approved by the Board on 10 October 2016.

The Directors consider that the Annual Report and Accounts, taken as a whole is fair, balanced and understandable, and provides the information necessary to assess the Group's performance, business model and strategy.

Going concern

The Directors have concluded that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and have accordingly prepared the Group and parent financial statements on a going concern basis. Please refer to the viability statement on page 31 for further details.

Events after the reporting period

The Directors are not aware of any events after the reporting period which are not reflected in these financial statements but which would have a material impact upon them.

Financial instruments

Details of the financial instruments used by the Group and the risks associated with them (including the financial risk management objectives and policies, and exposure to price, credit and liquidity risk) are set out in note 26 to the consolidated financial statement and this information is, accordingly, incorporated into this report by reference.

Future developments

Details on the likely future developments for the Group can be found in the Chief Executive's Review on page 9.

Greenhouse gas emissions

Details on the greenhouse gas emissions of the Group can be found on page 35.

AGM

The AGM will be held at the Grand Connaught Rooms, 61–65 Great Queen Street, London WC2B 5DA on 9 December 2016, starting at 9am. The Notice of Meeting convening the AGM is contained in a separate circular to be sent to shareholders. The Notice of Meeting also includes a commentary on the business of the AGM.

By order of the Board.

Paul Bradshaw

Non-Executive Chairman
10 October 2016

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements and have elected to prepare the Company financial statements in accordance with IFRSs as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group and Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Directors' Report, Directors' Remuneration Report and Strategic Report which comply with the requirements of the Act.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4

The Directors confirm to the best of their knowledge:

- The Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- The Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the Parent Company, together with a description of the principal risks and uncertainties that they face.

Independent auditor's report to the members of River and Mercantile Group PLC

Our opinion on financial statements

In our opinion the River and Mercantile Group PLC financial statements for the year ended 30 June 2016, which have been prepared by the Directors in accordance with the applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union:

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 30 June 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Act and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What our audit opinion covers

Our audit opinion covers the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Parent Company statement of financial position, the consolidated and Parent Company statement of statements in equity, the consolidated and Parent Company cash flow statement and the related notes.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our assessment of risks of material misstatement and overview of the scope of our audit

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

In order to gain appropriate audit coverage of the risks described below and of each individually significant reporting component, full scope audits of all significant components were performed by the Group audit team. In respect of the non-significant components based in the US, which contribute 9% of Group turnover and 3% of Group net assets, the Group audit team performed certain audit procedures over the financial information relevant to the consolidated financial statements. These procedures were performed to an appropriate level of materiality having regard to the level of Group materiality described below as well as aggregation risk. All significant components of the Group have coterminous year ends, with the exception of River and Mercantile Asset Management LLP, which has a year end of 31 March. A full scope audit was performed by the Group audit team for the year ended 31 March 2016 and additional audit procedures were performed to cover the three-month period to 30 June 2016, as well as the correct allocation of financial information to the reporting period.

Our audit approach was developed by obtaining an understanding of the Group's activities, the key functions undertaken by the Board and the overall control environment. Based on this understanding we assessed those aspects of the Group's transactions and balances which were most likely to give rise to a material misstatement.

We set out below the risks that had the greatest impact on our audit strategy and scope. The Audit and Risk Committee's consideration of these matters is set out on page 41.

Risk area	Audit response
<p>Revenue recognition</p> <p>The Group's revenue is made up of distinct components, primarily management fees, performance fees and advisory fees.</p> <p>Revenue recognition is considered to be a significant audit risk as it is a key driver of return to investors and there is judgement over the accrual or deferral of revenue, the treatment of performance measures and the point at which it is probable that the revenue will be realised.</p>	<p>We responded to this risk by performing the following procedures:</p> <ul style="list-style-type: none"> • We recalculated a sample of management fees recognised in the year based on AUM/NUM information derived from third-party sources and rates prevalent in the respective investment management agreement. We traced the sample through to invoice and subsequent cash receipt, or to accrued income where relevant. Our sample also included items included within accrued income. • We analytically reviewed management fee income by developing an expectation of monthly fee income based on average fee rates and the movements in AUM/NUM on a monthly basis. • We recalculated performance fees due in respect of a sample of contracts and tested the appropriateness of the deferral of performance fees in accordance with the terms of the contract, the accounting policy and IAS 18. • We developed expectations of contracts that would give rise to a performance fee by considering underlying performance against the terms of the contract. • We vouched a sample of advisory fees to invoice and bank receipt, including a sample of accrued advisory fees to subsequent invoice and receipt. • We considered the completeness of advisory fee income by reviewing a sample of post year end invoices raised for evidence of advisory projects relating to the year.
<p>Impairment of goodwill and intangibles</p> <p>Included in the statement of financial position of the Group is goodwill arising on business combinations of £14.8m and intangible assets acquired of £27.7m.</p> <p>The impairment review of goodwill and other intangible assets is considered to be a significant audit risk due to the significant judgement used in determining whether there is an indication of impairment in respect of the intangible assets and in the underlying assumptions used to calculate the value-in-use in the impairment review of goodwill, including revenue growth rates, ongoing expenses including the remuneration ratio, and the discount factor applied.</p>	<p>We responded to this risk by performing the following procedures:</p> <ul style="list-style-type: none"> • We reviewed management's assessment of whether any indications of impairment existed in respect of the definite-life intangible assets and challenged this assessment in light of our knowledge of the Group and consideration of forecasts prepared by management. • We reviewed the value-in-use model prepared by management in order to calculate the relevant cash generating unit's (CGU) recoverable amount. We reperformed the calculation of the recoverable amount. We challenged the key assumptions applied by management, including revenue growth forecasts, ongoing expenses including the remuneration ratio and the discount factor applied. This involved understanding the basis for management's assumptions and vouching these to available evidence and consultation with BDO valuations specialists to determine whether the discount factor represented an appropriate WACC for the Group. • We have considered the consistency of forecasts to those which have been examined as part of the going concern review and have looked at the accuracy of previous forecasts compared with actual performance and calculated the impact of sensitising key assumptions including the discount rate applied on the recoverable amount of the CGU.
<p>Remuneration incentive schemes</p> <p>The Group has two performance share plans in place. There is significant subjectivity and judgement involved in respect of the estimates inherent in the valuation of the schemes and the calculation of the relevant charges and associated deferred tax and accruals for national insurance costs, including the expectation of the number of shares expected to vest.</p> <p>The accounting and disclosure requirements involve a high degree of complexity and there is a risk that the schemes are not adequately reflected and disclosed in the financial statements.</p>	<p>We responded to this risk by performing the following procedures:</p> <ul style="list-style-type: none"> • We recalculated the charge for the year, as well as the deferred tax arising on the performance shares allocated. • We recalculated the fair value of PSP awards in 2016 using a Black-Scholes model. • We challenged management's assumptions regarding the expectation of the number of shares expected to vest by reviewing movements in the total shareholder return hurdles and reviewing available external evidence and we recalculated the impact on the accrual of national insurance costs. • We have considered the dilutive effect of the share plans and have considered whether relevant hurdles have been met in order to have a dilutive impact on earnings per share. We have recalculated the dilutive impact and have considered the adequacy of disclosures within the financial statements. • We reviewed the disclosures required by IFRS 2 in respect of the share-based payments.

Independent auditor's report to the members of River and Mercantile Group PLC

continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

The materiality for the Group financial statements as a whole was set at £470,000. This was determined with reference to a benchmark of 1% of consolidated turnover which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

Performance materiality was set at 60% of the above materiality levels.

Where financial information from components was audited separately, component materiality levels were set for this purpose at lower levels varying from 43% to 74% of Group materiality.

Materiality levels are not significantly different from those applied in the previous year.

We agreed with the Audit and Risk Committee that we would report to the Committee all individual audit differences in excess of £9,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Statement regarding the Directors' assessment of principal risks, going concern and longer-term viability of the Company

We have nothing material to add or to draw attention to in relation to:

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; or
- the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Report and Accounts is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Report and Accounts is fair, balanced and understandable and whether the Report and Accounts appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review the part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules of the Financial Conduct Authority for review by the auditor. The Listing Rules also require that we review the Directors' statements set out on page 31 regarding going concern and longer-term viability.

Leigh Wormald (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
UK
10 October 2016

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

Consolidated income statement

	Note	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Revenue	3		
Net management fees		36,764	34,684
Net advisory fees		8,905	11,970
Performance fees		1,526	5,879
Other income		2	56
Total revenue		47,197	52,589
Administrative expenses	5	9,790	9,752
Depreciation	8,19	103	91
Amortisation	8,9	4,330	4,333
Total operating expenses		14,223	14,176
Remuneration and benefits			
Fixed remuneration and benefits		18,423	18,440
Variable remuneration		7,111	8,476
Total remuneration and benefits	6	25,534	26,916
EPSP costs	7	283	1,037
Total remuneration and benefits including EPSP		25,817	27,953
Total expenses		40,040	42,129
Profit before interest and tax		7,157	10,460
Finance income	10	81	71
Finance expense	10	(2)	(6)
Profit before tax		7,236	10,525
Tax charge/(credit)	11		
Current tax		2,411	3,193
Deferred tax		(1,040)	(1,000)
Profit for the year attributable to owners of the parent		5,865	8,332
Earnings per share:	12		
Basic (pence)		7.15	10.15
Diluted (pence)		7.15	9.85

Consolidated statement of comprehensive income

		Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Profit for the year		5,865	8,332
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation adjustments		320	86
Change in value of available-for-sale financial assets	16	195	155
Deferred tax on change in value of available-for-sale financial assets	11	(39)	(31)
Total comprehensive income for the year attributable to owners of the parent		6,341	8,542

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

Consolidated statement of financial position

	Note	30 June 2016 £'000	30 June 2015 £'000
Assets			
Cash and cash equivalents	14	14,147	20,227
Investment management balances	15	15,448	9,104
Available-for-sale investments	16	5,350	5,155
Financial assets at fair value through profit or loss	26	–	130
Fee receivables	17	6,488	3,126
Other receivables	18	10,766	10,744
Deferred tax asset	11	609	528
Property, plant and equipment	19	377	208
Intangible assets	9	41,552	45,853
Total assets		94,737	95,075
Liabilities			
Investment management balances	15	14,655	9,201
Current tax liabilities		1,168	1,555
Trade and other payables	20	9,831	10,291
Deferred tax liability	11	5,347	6,174
Total liabilities		31,001	27,221
Net assets		63,736	67,854
Equity			
Share capital	21	246	246
Share premium	21	14,688	14,688
Other reserves	22	49,553	49,077
Purchase of own shares by EBT	21	(1,283)	–
Retained earnings		532	3,843
Equity attributable to owners of the parent		63,736	67,854

The notes to the consolidated 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 10 October 2016.

Mike Faulkner
Chief Executive

Kevin Hayes
Chief Financial Officer

Consolidated statement of cash flows

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Cash flow from operating activities		
Profit before interest and tax	7,157	10,460
Adjustments for:		
Amortisation of intangible assets	9	4,333
Depreciation of property, plant and equipment	19	103
Share-based payment expense	7	768
(Gain)/loss on assets held at fair value through profit and loss	(4)	1
Operating cash flow before movement in working capital	12,354	15,415
Increase in operating assets	(9,417)	(1,456)
Increase in operating liabilities	4,547	586
Cash generated from operations	7,484	14,545
Tax paid	(2,798)	(2,975)
Disposal of assets held at fair value through profit and loss	134	–
Net cash generated from operations	4,820	11,570
Cash flow from investing activities		
Purchases of property, plant and equipment	19	(267)
Interest received	10	41
Investment in seeded fund	16	–
Contingent consideration paid on business acquisitions	–	(5,000)
Net cash used in investing activities	(226)	(5,061)
Cash flow from financing activities		
Interest paid	10	(2)
Dividends paid	13	(9,851)
Purchase of own shares	21	(945)
Net cash used in financing activities	(10,798)	(5,670)
Net (decrease)/increase in cash and cash equivalents	(6,204)	839
Cash and cash equivalents at beginning of year	20,227	19,388
Effects of exchange rate changes on cash and cash equivalents	124	–
Cash and cash equivalents at end of year	14	14,147

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

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 £'000	Own shares held by EBT £'000	Retained earnings £'000	Total £'000
Balance as at 30 June 2014	246	14,688	–	(92)	44,433	84	4,442	–	343	64,144
Comprehensive income for the year:										
Profit for the year	–	–	–	–	–	–	–	–	8,332	8,332
Other comprehensive income	–	–	155	86	–	–	–	–	–	241
Deferred tax credit on available-for-sale investments	–	–	(31)	–	–	–	–	–	–	(31)
Total comprehensive income for the year	–	–	124	86	–	–	–	–	8,332	8,549
Transactions with owners:										
Dividends	–	–	–	–	–	–	–	–	(5,664)	(5,664)
Share-based payment expense	–	–	–	–	–	–	–	–	530	530
Deferred tax credit on share-based payment expense	–	–	–	–	–	–	–	–	302	302
Total transactions with owners:	–	–	–	–	–	–	–	–	(4,832)	(4,832)
Balance as at 30 June 2015	246	14,688	124	(6)	44,433	84	4,442	–	3,843	67,854
Comprehensive income for the year:										
Profit for the year	–	–	–	–	–	–	–	–	5,865	5,865
Other comprehensive income	–	–	195	320	–	–	–	–	–	515
Deferred tax credit on available-for-sale investments	–	–	(39)	–	–	–	–	–	–	(39)
Total comprehensive income for the year	–	–	156	320	–	–	–	–	5,865	6,341
Transactions with owners:										
Dividends	–	–	–	–	–	–	–	–	(9,851)	(9,851)
Share-based payment expense	–	–	–	–	–	–	–	–	768	768
Deferred tax credit on share-based payment expense	–	–	–	–	–	–	–	–	(93)	(93)
Purchase of own shares by EBT	–	–	–	–	–	–	–	(1,283)	–	(1,283)
Total transactions with owners:	–	–	–	–	–	–	–	(1,283)	(9,176)	(10,459)
Balance as at 30 June 2016	246	14,688	280	314	44,433	84	4,442	(1,283)	532	63,736

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

Notes to the consolidated financial statements

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretation Committee interpretations, and with those parts of the 2006 Act applicable to groups reporting under IFRS as issued by the International Accounting Standards Board and adopted by the European Union (IFRS) that are relevant to the Group's operations and effective for accounting periods beginning on 1 July 2015.

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, the Group and Company financial statements have been prepared on a going concern basis using the historical cost convention, except for the measurement at fair value of certain financial instruments that are held at fair value.

Basis of consolidation

The consolidated financial statements include the Company and the entities it controls (its subsidiaries). Subsidiaries are considered to be controlled where the Group has both exposure to variable returns from the subsidiary, the power to affect those variable returns and power over the subsidiary itself. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Subsidiaries are consolidated from the date that the Group gains control, and de-consolidated from the date that control is lost.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the subsidiaries' identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. The consolidated financial statements are based on the financial statements of the individual companies drawn up using the standard Group accounting policies. Accounting policies applied by individual subsidiaries have been revised where necessary to ensure consistency with Group policies for consolidation purposes.

All transactions and balances between entities within the Group have been eliminated in the preparation of the consolidated financial statements.

The EBT is included in the consolidated financial statements of the Group. The EBT purchases shares pursuant to the non-dilutive equity awards granted to employees. These purchases and the operating costs of the trust are funded by the Company. The EBT is controlled by independent trustees and its assets are held separately from those of the Group.

The consolidated statement of financial position has been presented on the basis of the liquidity of the assets and liabilities.

The Group's relationship with fund entities

The Group entities act as the investment managers to funds and segregated managed accounts, and RAMAM is the Authorised Corporate Director (ACD) of River and Mercantile Funds ICVC (collectively Investment Management Entities (IMEs)).

Considering all significant aspects of the Group's relationship with the IMEs, the Directors are of the opinion that although the Group manages the investment resources of the IMEs, the existence of: termination provisions in the Investment Management Agreements (IMAs) which allow for the removal of the Group as the investment manager; the influence exercised by investors in the control of their IME and the arm's length nature of the Group's contracts with the IME; and independent Boards of Directors of the IME, the Group does not control the IME and therefore the assets, liabilities and net profit are not consolidated into the Group's financial statements.

Foreign currencies

The majority of revenues, assets, liabilities and funding are denominated in UK Pounds Sterling (GBP/£), and therefore the presentation currency of the Group is GBP. All entities within the Group have a functional currency of GBP, except for those based in the US.

Monetary items which are denominated in foreign currencies are translated at the rates prevailing at the reporting date. Non-monetary items are measured at the rates prevailing on the date of the transaction and are not subsequently retranslated.

1. Basis of preparation *continued*

The functional currency of the US-based entities is US Dollars and is translated into the presentational currency as follows:

- assets and liabilities are translated at the closing rate at the date of the respective statement of financial position;
- income and expenses for each period presented are translated at the daily exchange rate for that period presented; and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2. Significant accounting policies and significant judgements and estimates

As detailed in note 1, these financial statements are prepared in accordance with IFRS. The significant accounting policies of the Group which impact these financial statements are:

- Impairment of intangible assets, goodwill and investments recorded in previous acquisitions, described in note 9.
- Recognition of management and performance fee revenues, described in note 3.
- The accounting for share-based remuneration, described in note 7.

The above are also significant accounting policies because they require management to make subjective judgements or estimates which involve a significant level of complexity, and have a greater impact on the financial statements.

3. Revenue

Net management fees

Net management fees represent the fees charged pursuant to an IMA with clients. They are reported net of rebates and commissions paid to third parties and are charged as a percentage of the client's AUM or NUM. The fees are generally accrued on a daily basis and charged to the client either monthly or quarterly. During the year ended 30 June 2016, rebates and commissions totalling £1,971,000 (2015: £2,011,000) were paid to third parties in respect of management fees.

Net advisory fees

Net advisory fees represent fees charged under Investment Advisory Agreements (IAA) and are typically charged on a fixed retainer fee basis or through a fee for the delivery of a defined consulting or advisory project. Advisory revenue is reported net of revenue share arrangements with other advisory partners. During the year ended 30 June 2016, £68,000 was reclaimed from (2015: £179,000 paid to) a subsidiary of PSG (see related party note 25) and £2,000 was reclaimed from (2015: £92,000 paid to) a third party, under revenue sharing arrangements relating to Palisades. Fees are accrued monthly and charged when the work has been completed.

Performance fees

Performance fees are fees paid under the IMAs for generating excess investment performance either on an absolute basis subject to a high-water mark, or relative to a benchmark. Performance fees are calculated as a percentage of the investment performance generated and may be subject to deferral and continued performance objectives in future periods. Performance fees are recognised in income when the quantum of the fee can be estimated reliably and it is probable that the fee will be realised. This occurs once the end of the performance period has been reached. The client is invoiced for the performance fee at the end of the performance period which is generally annually either on the anniversary of their IMA or on a calendar year basis.

Other income

Other income includes the realised gains and fair value movements relating to the ACD balances (note 26).

4. Divisional and geographical reporting

The business operates through four divisions, however, these are not considered as segments for the purposes of IFRS 8 on the basis that resource allocation decisions are not made on the basis of segmental reporting. Despite this, the Directors feel that it is useful to the understanding of the results of operations to include certain information.

The net revenue for the year ended 30 June 2016 and 30 June 2015 together with the year end AUM and NUM, reflect the activities of the respective divisions.

	Year ended 30 June 2016		Year ended 30 June 2015	
	Net revenue £'000	Fee earning AUM/NUM £m	Net revenue £'000	Fee earning AUM/NUM £m
Fiduciary Management division	13,871	9,287	13,083	7,401
Derivative Solutions division	9,481	13,903	7,857	11,634
Equity Solutions division	13,412	2,358	13,744	1,982
Advisory division	8,905	N/A	11,970	N/A
Total	45,669	25,548	46,654	21,017

Notes to the consolidated financial statements *continued*

4. Divisional and geographical reporting *continued*

Performance fees of £1.2m (2015: £5.2m) were earned by the Fiduciary Management division, with the remainder earned by the Equity Solutions division.

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

On a geographic basis the majority of the revenues are earned in the UK. The Group has an advisory, derivatives and fiduciary management business in the US and net revenue earned in the US for the year ended 30 June 2016 was £4.2m (2015: £5.4m). The AUM/NUM of the US business was £648m (2015: £637m).

Non-current assets held by the US business include £1,435,000 (2015: £1,346,000) of goodwill.

5. Administrative expenses

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Marketing	825	574
Travel and entertainment	467	519
Office facilities	1,822	1,778
Technology and communications	2,692	2,433
Professional fees	1,266	1,583
Governance expenses	706	639
Fund administration	612	683
Other	1,400	1,543
Total administrative expenses	9,790	9,752

The majority of administrative expenses are generally fixed in nature and comprise office facilities, IT and communications costs.

Included in other costs is the cost of insurance of £345,000 (2015: £404,000), staff training and recruitment of £447,000 (2015: £530,000) and irrecoverable VAT of £281,000 (2015: £222,000).

Administrative expenses include the remuneration of the external auditors for the following services:

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Audit of the Company's annual accounts	108	205
Audit of the Company's subsidiaries	82	75
Audit related assurance services	46	9
Tax compliance services	18	34
	254	323

6. Remuneration and benefits

Fixed remuneration represents contractual base salaries, RAMAM member drawings and employee benefits which comprise the majority of the expense. The Group operates a defined contribution plan under which the Group pays contributions to a third party.

Variable remuneration relates to discretionary bonuses, profit share paid to the members of RAMAM and associated taxes.

Variable remuneration also includes a charge of £316,000 (2015: £79,000) relating to the amortisation of the Group's PSP share awards.

	Year ended 30 June 2016 Number	Year ended 30 June 2015 Number
The average number of employees (including Directors) employed was:		
Advisory division	63	56
Fiduciary Management division	51	48
Derivative Solutions division	22	18
Equity Solutions division	16	16
Distribution	13	16
Corporate	29	30
Total average headcount	194	184

6. Remuneration and benefits *continued*

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
The aggregate remuneration of employees (including Directors) comprised:		
Wages and salaries	22,298	24,249
Social security costs	2,276	2,000
Pension costs (defined contribution)	644	588
Share-based payment expense (note 7)	316	79
Total remuneration and benefits (excluding EPSP)	25,534	26,916
Fixed remuneration	18,423	18,440
Variable remuneration	7,111	8,476
Total remuneration and benefits (excluding EPSP)	25,534	26,916
EPSP costs:		
Share-based payment expense (note 7)	452	452
Social security costs (note 7)	(169)	585
Total EPSP costs	283	1,037

Directors' remuneration

The aggregate remuneration and fees payable to Executive and Non-Executive Directors for the year ended 30 June 2016 and the year ended 30 June 2015 was £2,582,377 and £1,452,154 respectively. Fees payable for the year ended 30 June 2016 to Directors of PSG and Pacific Investments totalled £48,750 and £15,587 (2015: £65,000 and £32,500) respectively.

The remuneration of the Executive Directors (which includes the highest paid Director) is included in the Remuneration Committee report.

Key management remuneration

Key management includes the Executive and Non-Executive Directors and senior business heads. The remuneration paid or payable to key management for employee services is shown below:

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Short-term employee benefits	6,014	6,364
Post employment benefits	92	87
Share-based payment expense	600	470
Total key management remuneration	6,706	6,921

Details of share awards granted to Directors for future performance periods can be found in the Remuneration Report.

7. Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each year end date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the change in the fair value of the options, measured immediately before and after the modifications, is recognised in the consolidated income statement over the remaining vesting period.

Executive Performance Share Plan

Prior to Group's admission to the London Stock Exchange (Admission) on 26 June 2014, the Board of Directors established the EPSP to grant the Executive Directors performance shares. At the date of Admission two classes of performance shares were awarded: Performance Condition A Awards and Performance Condition B Awards. The maximum aggregate number of Performance Condition A Awards and Performance Condition B Awards which may be issued under the EPSP was limited to 10% of the issued ordinary share capital of the Company on Admission. The Company granted 4,843,626 performance shares under Performance Condition A Awards and 2,462,860 performance shares under Performance Condition B Awards. The exercise price for the EPSP share awards is £0.003. These all remain outstanding as at 30 June 2016.

Notes to the consolidated financial statements *continued*

7. Share-based payments *continued*

The vesting of Performance Condition A Awards is conditional upon achieving a Total Shareholder Return (TSR) of at least 12% compounded over the four-year performance period ending 30 June 2018. Vesting starts at 12% compound annual TSR and 100% vests at 24% compound annual TSR over the four-year period. Vesting will be pro-rated on a straight-line basis between 12% and 24%.

The vesting of Performance Condition B Awards is conditional on achieving a TSR of at least 25% compounded over the four-year performance period ending 30 June 2018. Vesting starts at 25% compound annual TSR and 100% vests at 30% compound annual TSR over the four-year period. Vesting will be pro-rated on a straight-line basis between 25% and 30%.

Performance Condition A and B Awards are not eligible for dividends during the vesting period.

Any shares which vest are subject to a holding period of 12 months following the vesting date. Shares which do not vest will be forfeited. The vesting is also subject to the participant's continued employment by the Group during the vesting and holding period or, if employment ceases, being classified as a good leaver at the discretion of the Remuneration Committee. As at 30 June 2016, no shares had been granted, forfeited, exercised, expired or vested under either the A or B Awards (2015: none).

The fair value of the performance shares was determined by an independent valuation undertaken by EY LLP on behalf of the Remuneration Committee of the Board. This fair value was based on a Monte Carlo simulation of possible outcomes based on the returns and volatility characteristics of comparable publicly listed investment management businesses in the FTSE.

The key assumptions used in the valuation were: a mean expected TSR growth rate in line with the risk free rate (1.72%); a TSR volatility derived from the TSR volatilities of listed comparable companies of 30%; and a dividend yield of 4.5%.

The fair value of the Performance Condition A Awards is 38 pence per share and the fair value of the Performance Condition B Awards is 17 pence per share. The total fair value of Performance Condition A and B Awards is estimated at £1.84m and £0.42m respectively. The fair value is amortised into EPSP costs over the vesting period and a charge of £452,000 was recognised for the year ended 30 June 2016 (2015: £452,000), which is treated as a non-cash adjusting item. The weighted average contractual remaining life of the A and B Awards as at 30 June 2016 is three years.

The Directors expect that any shares that vest will be subject to applicable employer taxes at the date of vesting and at the end of the holding period. An accrual for this cost has been calculated based on the current rate of National Insurance, the number of the shares that the Directors expect to vest and the share price at the reporting date. The movement in the accrual in the year ended 30 June 2016 was a credit of £169,000 (2015: debit £585,000) and was included in the share-based remuneration expense. This figure assumes that 43% (2015: all) of the awards will vest, which is an estimate subject to uncertainty. This is the second year the estimate has been made and whilst the next financial year will give a clearer picture of the TSR likely to be achieved, it will still remain an estimate. A 10% increase in the number of shares expected to vest would increase the charge in the year by £42,000.

Performance Share Plan

The Performance Share Plan (PSP) allows for the grant of: nil cost options, contingent share awards or forfeitable share awards.

The Directors have stated an intention that vested performance share awards under the PSP would not be dilutive on shareholders, as the shares will be purchased by the EBT.

The charge recognised in respect of PSP awards in the year ended 30 June 2016 is £316,000 (2015: £79,000). Additionally, an accrual of £52,000 (2015: £45,000) for National Insurance on vesting has been established.

2015 awards

The Directors granted awards to staff in respect of the year ended 30 June 2015. The awards totalled £1,070,000 and were converted into a number of shares subject to award based upon the share price following the announcement of the Group's results for the year.

The awards vest on 30 June 2017 or 30 June 2018, depending on the specific award. These awards are in respect of employee services during the year ended 30 June 2015 and in future periods. Therefore, the fair value of the awards is recognised in part in the current and prior year.

The awards contain a combination of performance measures, including: continued employment; future sales targets; Group TSR; and divisional revenue and AUM/NUM.

The fair value of the awards has been estimated using a combination of Monte Carlo simulation and Black-Scholes modelling. In the prior year, the figures were estimated using the share price as at 13 August 2015, being the date on which the Remuneration Committee approved the awards. There was no significant difference in fair value of the awards granted between the approval date and the grant date, and therefore no adjustment has been made in the Group's 2016 results in respect of the 2015 awards.

7. Share-based payments *continued*

2016 awards

The Directors granted awards to staff in respect of the year ended 30 June 2016. These awards total £354,000 and will be converted into a number of shares subject to award based upon the share price following the announcement of the Group's results for the year.

The awards vest on 30 June 2018. These awards are in respect of employee services during the year ended 30 June 2016 and in future periods. Therefore the fair value of the awards is recognised in part in the year ended 30 June 2016.

The awards will vest in full provided that the recipient remains employed by the Group for three years.

The fair value of the awards has been estimated using a Black-Scholes model. For the purposes of these financial statements the figures have been estimated using the share price as at 13 August 2016, being the date on which the Remuneration Committee approved the awards.

In addition, approximately 1,400,000 shares have been awarded to employees and Executive Directors for future periods and are therefore not recognised in the current year. The awards contain a combination of performance measures, including: continued employment; Group TSR; achieving strategic priorities; and divisional revenue and AUM/NUM.

The key inputs used in determining the fair value of the PSP are:

	Share plan 1	Share plan 2	Share plan 3	Share plan 4
Financial year of award	2015	2015	2015	2016
Grant date award value £	619,735	375,000	47,665	354,332
Grant date share price £	2.22	2.22	2.22	2.15 (est.)
Number of shares:				
Number of shares outstanding at the beginning of the year	279,160	168,919	21,471	–
Number of shares forfeited during the year	(33,692)	–	(4,955)	–
Exercised during the year	–	–	–	–
Number of shares outstanding at the end of the year	245,468	168,919	16,516	164,515 (est.)
Fair value assumptions:	5%	5%	5%	5%
Exercise price	£nil	£nil	£nil	£nil
Risk free rate	0.94%	0.94%	0.94%	0.94%
Share price volatility	26.08%	26.08%	26.08%	27.40%
Dividend yield	5%	5%	5%	5%
Key terms:				
Vesting period	01/07/14–30/06/17	01/07/14–30/06/18	01/07/14–30/06/17	01/07/15–30/06/18
Weighted average remaining contractual life	1 year	2 years	1 year	2 years
12% compounded TSR hurdle over vesting period	Yes	Yes	No	No
Continued employment required (subject to good leaver provisions)	Yes	Yes	Yes	Yes
Other key terms	Achievement of specified divisional AUM/NUM and revenue targets within a range	None	None	None
Vesting profile per individual	Straight-line between minimum and maximum divisional AUM/NUM and revenue targets	All or nothing	All or nothing	All or nothing
Grant date fair value per share (pence)	60.69	51.71	204.69	195.00 (est.)
Number of shares expected to vest	78,550	168,919	16,516	148,737

The volatility for awards granted in the year has been calculated based upon the annualised daily return on the Company's share price from IPO to year end. All awards automatically exercise at the end of the vesting period. Additionally, one employee was given share awards on commencing employment equalling the cash value and vesting terms of an award given by their previous employer. This award vests in stages to 31 March 2018. The total number of shares granted was 13,466 and the only condition is for the employee to remain employed at the vesting dates. The fair value per share has been calculated as 204.69p and the full number of shares is expected to vest. The weighted average remaining contractual life is one year.

As at the reporting date, none of the awards were exercisable (2015: none).

Notes to the consolidated financial statements *continued*

8. Depreciation and amortisation

Depreciation charges primarily relate to IT and communications equipment, and leasehold improvements. The property, plant and equipment, and the depreciation accounting policies are described in note 19.

The amortisation charge principally relates to the IMAs recorded in the acquisition of RAMAM as described in note 9. The RAMAM IMA intangibles are amortised over their expected useful life of between five to 10 years based on an analysis of the respective client channels. The amortisation is not deductible for tax purposes. At the date of the acquisition a deferred tax liability was recognised and is being charged to taxes in line with the amortisation of the related RAMAM IMAs (note 9).

9. Intangible assets

Business combinations and goodwill

All business combinations are accounted for using the acquisition method. The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer. The fair value of a business combination is calculated at the acquisition date by recognising the acquired entity's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquired entity. The cost of a business combination in excess of fair value of net identifiable assets or liabilities acquired, including intangible assets identified, is recognised as goodwill. Any costs incurred in relation to a business combination are expensed as incurred.

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is not amortised but is reviewed for impairment annually, or more frequently when there is an indication of impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units (CGUs) expected to benefit from the synergies of the combination. Each unit to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying value of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised is not reversed in a subsequent period.

Identifiable intangible assets

Customer relationships

IMAs and customer relationships acquired in a business combination are recognised separately from goodwill at their fair value at the acquisition date. Customer relationships have an estimated useful life of 20 years and IMAs have estimated useful lives of five to 10 years. The identified intangible assets are carried at cost less accumulated amortisation calculated on a straight-line basis being reviewed annually.

Impairment of intangible assets, excluding goodwill

At each statement of financial position date or whenever there is an indication that the asset may be impaired, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, an impairment loss is recognised as an expense immediately. For assets other than goodwill, where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation or amortisation that would have been charged since the impairment.

9. Intangible assets *continued*

	Goodwill £'000	Customer lists and IMAs £'000	Total £'000
Cost:			
At 1 July 2014	15,102	36,510	51,612
Exchange difference	99	–	99
At 30 June 2015	15,201	36,510	51,711
Disposals	(169)	–	(169)
Exchange difference	198	–	198
At 30 June 2016	15,230	36,510	51,740
Accumulated amortisation and impairment:			
At 1 July 2014	(395)	(1,130)	(1,525)
Amortisation charge	–	(4,333)	(4,333)
At 30 June 2015	(395)	(5,463)	(5,858)
Amortisation charge	–	(4,330)	(4,330)
At 30 June 2016	(395)	(9,793)	(10,188)
Net book value:			
At 30 June 2015	14,806	31,047	45,853
At 30 June 2016	14,835	26,717	41,552

There were no acquisitions in the year ended 30 June 2016 (2015: none). The disposal of goodwill relates to the disposal of the Palisades business.

Acquisition of River and Mercantile Asset Management LLP (RAMAM)

The identifiable assets include the fair value of the IMAs acquired during the acquisition of RAMAM. The expected future cash flows applied to the valuation on acquisition were based on assumptions and estimates including the level of future sales, redemptions and investment performance. Costs associated with the IMAs were also estimated. The after tax net cash flows were discounted to the current period using a discount rate that reflects the risk associated with the net cash flows. The resulting intangible asset is amortised over the useful life of the contracts ranging from five to 10 years, depending on the nature of the distribution channel. The amortisable values of the IMAs were calculated using forecast cash flows into perpetuity with a pre-tax discount rate of 11.25% and a medium-term net growth rate of 5–7% for Institutional mandates and 2% for Wholesale. The amortisation will not be deductible for corporate tax purposes and, therefore, a deferred tax liability has been raised on the value of the intangible assets.

Impairment review

Goodwill includes the goodwill arising on the acquisition of RAMAM and Cassidy Retirement Group Inc. (Cassidy). Included in the year-end balance is £13.2m (2015: £13.2m) in respect of RAMAM, £1.4m (2015: £1.2m) in respect of Cassidy and £0.2m (2015: £0.2m) in respect of P-Solve Investments.

The Directors estimated the recoverable amount of the RAMAM goodwill based upon the value in use of the division. The value in use was measured using internal budgets and forecasts covering a period of five years, with a 2% revenue growth rate assumption for perpetuity cash flows and a pre-tax discount rate of 12.5%.

The key assumptions included in the estimate are revenue, and expenses including remuneration for staff and partners. These were determined through a review of current levels of revenue and cost, known changes, contractual provisions and sales plans.

Sensitivity analysis was performed on the key inputs of the valuation, being the growth and discount rates and future cash flows. A greater than 50% relative increase in the discount rate was required to indicate impairment, and no reasonable change in the growth rate led to impairment.

The Directors estimated the recoverable amount of the Cassidy goodwill based upon the value in use of the division. The value in use was measured using internal budgets and forecasts covering a period of three years, with a 2% revenue growth rate assumption for perpetuity cash flows and a pre-tax discount rate of 12%.

The key assumptions included in the estimate are revenue, and expenses including remuneration. These were determined through a review of current levels of revenue and cost, known changes, contractual provisions and sales plans.

Sensitivity analysis was performed on the key inputs of the valuation, using several scenarios. No scenario showed impairment. A greater than 50% increase in the discount rate was required to indicate impairment.

Notes to the consolidated financial statements *continued*

10. Finance income and finance expense

Finance income and expense are recognised in the period to which they relate on an accruals basis.

Finance income comprises £28,000 of bank interest (2015: £21,000), £13,000 of interest earned from a loan to Palisades (2015: £nil) and £41,000 of foreign exchange gain (2015: £50,000). Finance expense includes £nil (2015: £3,000) relating to the unwinding of discounts on contingent consideration from previous acquisitions and £2,000 (2015: £3,000) of other finance expense.

11. Current and deferred tax

The tax charge consists of current tax and deferred tax. Current tax represents the estimated tax payable on the taxable profits for the period. Taxable profit differs from net profit reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, and is measured using the substantively enacted rates expected to apply when the asset or liability will be realised or settled.

Deferred tax assets and liabilities are not offset unless the Group has legal right to offset which it intends to apply. Deferred tax assets are recognised only to the extent that the Directors consider it probable that they will be recovered.

Deferred tax is recognised in the income statement, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity.

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 share-based payment expense. The amortisation of the IMA intangible asset is not tax deductible for corporate tax purposes therefore the deferred tax liability is released into the consolidated 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 shares and the corresponding adjustment to deferred tax is recognised in the income statement and equity.

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Current tax:		
Current tax on profits for the year	2,483	3,153
Adjustments in respect of prior years	(72)	40
Total current tax	2,411	3,193
Deferred tax – origination and reversal of timing differences	(1,040)	(1,000)
Total tax charge	1,371	2,193

The total tax charge assessed for the year is £76,000 lower (2015: £9,000 higher) than the average standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Profit before tax	7,236	10,525
Profit before tax multiplied by the average rate of corporation tax in the UK of 20% (2015: 20.75%)	1,447	2,184
Effects of:		
Expenses not deductible for tax purposes	1,036	1,028
Deferred tax on amortisation of RAMAM IMAs	(866)	(867)
Income not subject to tax	(10)	(70)
Adjustment in respect of prior years	(72)	40
Other timing differences	(164)	(122)
Total tax charge	1,371	2,193

Effective from 1 April 2015, the applicable UK corporation tax rate was reduced from 21% to 20%.

11. Current and deferred tax *continued*

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

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Deferred tax liabilities		
At beginning of year	6,174	7,010
Credit to the income statement – amortisation of intangible assets	(866)	(867)
Debit to equity – fair value movements on available-for-sale assets	39	31
At end of year	5,347	6,174
Deferred tax assets		
At beginning of year	528	95
(Charge)/credit to the income statement:		
– accelerated capital allowances	(12)	(3)
– deductible temporary differences	15	(28)
– share-based payment expense	171	162
Credit to equity – share-based payment expense	(93)	302
At end of year	609	528

12. Earnings per share

The basic and diluted earnings per share are 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 year.

To the extent that any of the EPSP awards (note 7) vest they will have a dilutive effect on the equity holders of the Company. The potential dilution effect of the EPSP awards will be considered in the calculation of diluted earnings per share.

The dilutive effect of the EPSP awards is measured based on the 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. No consideration is given to future performance.

Based on the Group's share price at 30 June 2016 and dividends paid, none (2015: 100%) of the EPSP performance shares would have met the vesting criteria and were therefore no share awards were considered dilutive. There were no share awards that were anti-dilutive in the year but which may be dilutive in future periods (2015: none).

	Year ended 30 June 2016	Year ended 30 June 2015
Profit attributable to owners of the parent (£'000)	5,865	8,332
Weighted average number of shares in issue ('000)	82,048	82,095
Weighted average number of diluted shares ('000)	82,048	84,592
Earnings per share:		
Earnings per share		
Basic (pence)	7.15	10.15
Diluted (pence)	7.15	9.85

Reconciliation between weighted average shares in issue

	Year ended 30 June 2016 '000	Year ended 30 June 2015 '000
Weighted average number of shares in issue – basic	82,048	82,095
Dilutive effect of shares granted under EPSP	–	2,497
Weighted average number of shares in issue – diluted	82,048	84,592

The weighted average number of shares in issue has reduced as a result of purchases of own shares by the EBT (note 21). At 30 June 2016, the EBT held 564,000 shares (2015: nil).

Notes to the consolidated financial statements *continued*

12. Earnings per share *continued*

Adjusted profit after tax

Adjusted profit after tax represents statutory profit after tax, adjusted to add back the amortisation of intangible assets and EPSP costs, net of tax.

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Profit before tax	7,236	10,525
Adjustments:		
Amortisation of intangible assets	4,330	4,333
EPSP costs	283	1,037
Adjusted profit before tax	11,849	15,895
Adjusted tax charge	(2,313)	(3,202)
Adjusted profit after tax	9,536	12,693

Adjusted earnings per share

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Adjusted profit after tax	9,536	12,693
Weighted average shares	82,048	82,095
Weighted average diluted shares	82,048	84,592
Adjusted earnings per share:		
Basic (pence)	11.62	15.46
Diluted (pence)	11.62	15.00

Adjusted underlying profit

Adjusted underlying profit represents net management and advisory fees less the related expense base, excluding the amortisation of intangible assets and EPSP costs.

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Performance fees	1,526	5,879
Associated remuneration expense at 50%/42%	(763)	(2,469)
Net performance fee profit before tax	763	3,410
Adjusted profit before tax	11,849	15,895
Less:		
Net performance fee profit before tax	(763)	(3,410)
Other income	(2)	(56)
Adjusted underlying profit before tax	11,084	12,429
Adjusted underlying tax charge	(2,158)	(2,482)
Adjusted underlying profit after tax	8,926	9,947
Adjusted underlying pre-tax margin	24%	27%

13. Dividends

The Group recognises dividends when an irrevocable commitment to pay them is incurred. In the case of interim dividends, this is generally the payment date. In the case of final dividends, this is the date upon which the dividend is approved by shareholders.

During the year, the following dividends were paid:

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
2014 final (2.3 pence per share)	–	1,888
2015 first interim (4.6 pence per share)	–	3,776
2015 second interim (4.6 pence per share)	3,776	–
2015 final (3.8 pence per share)	3,120	–
2016 first interim (3.6 pence per share)	2,955	–
	9,851	5,664

A second interim dividend in respect of the year of 3.4 pence per share has been declared. A final dividend in respect of the year of 2.5 pence per share has been proposed. Based upon the number of shares held by the EBT at the year end (upon which dividends are waived), the expected total payments are £2,772,000 and £2,038,000 for the second interim and final dividends respectively.

14. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. At year end all cash balances were held by banks with credit ratings as detailed below.

Bank	£'000	Credit rating	Rating Body
Barclays Bank	9,267	A2 -	Moody's
Lloyds Bank	2,525	Baa1	Moody's
BMO Harris Bank	30	Aa3	Moody's
First Republic Bank	2,325	A1	Moody's
Total cash and cash equivalents	14,147		

15. Investment management balances

	30 June 2016 £'000	30 June 2015 £'000
Investment management receivables	15,448	9,104
Investment management payables	14,655	9,201

As ACD of River and Mercantile Funds ICVC (the Fund) the Group is required to settle transactions between investors and the depositary of the Fund. The Group is exposed to the short-term liquidity requirements to settle with the depositary of the Fund before receiving payments from the investor and mitigates this risk by holding cash in its ACD account. The credit risk associated with the investment management balances is discussed in note 26.

The investment management balances are recorded as loans and receivables and financial liabilities held at amortised cost. They are initially recognised based upon the values given by the administrator of the ICVC and are subsequently recognised at amortised cost. Due to their short-term nature (typically less than a week), amortised cost closely approximates fair value. If any investment management receivable was to remain unpaid significantly past its term, the Directors would consider a provision for impairment. No provisions were made at 30 June 2016 (2015: £nil).

The investment management assets and liabilities are valued at the contractually agreed subscription or redemption values.

Notes to the consolidated financial statements *continued*

16. Available-for-sale investments

During the prior year, the Group invested £5,000,000 of seed capital in the River and Mercantile Dynamic Asset Allocation fund (the DAA fund). This investment is recognised as an available-for-sale financial asset. The Group's policy on financial instruments can be found in note 26.

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.

The movement in the carrying value of the available-for-sale investment is analysed below:

	£'000
At 1 July 2014	–
Additions	5,000
Movement in fair value	155
At 30 June 2015	5,155
Movement in fair value	195
At 30 June 2016	5,350

17. Fee receivables

Fee receivables are recorded initially at the invoiced value, which is the estimated fair value of the receivables and are subsequently held at amortised cost. The Group's policy on financial instruments can be found in note 26.

The collectability of the fee receivables is reviewed periodically and if there is evidence to indicate that an amount may not be collectable a specific provision is established against the receivable. At 30 June 2016, a provision of £82,000 (2015: £82,000) had been established against potentially irrecoverable receivable balances and the total balance is reported in the consolidated statement of financial position net of this provision. On confirmation that the fee receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The ageing of fee receivables is shown below:

	30 June 2016 £'000	30 June 2015 £'000
Neither past due nor impaired	4,668	1,039
Past due but not impaired:		
– Less than three months	1,057	1,787
– More than three months	763	300
Impaired:		
– More than three months	82	82
– Provision for impairment	(82)	(82)
Total fee receivables	6,488	3,126

The average credit period on fee receivables is 46 days (2015: 51 days). The Directors believe that the carrying value of fee receivables, net of impairment, represents their fair value due to their short-term nature and is the maximum credit risk value. The Directors are satisfied with the credit quality of counterparties.

18. Other receivables

	30 June 2016 £'000	30 June 2015 £'000
Prepayments and accrued income	10,047	10,593
Other assets	719	151
	10,766	10,744

Accrued income includes management fees that have been recognised in the consolidated income statement in line with the Group's accounting policies on revenue recognition, but have not yet been invoiced to clients. Clients are generally invoiced in arrears on a quarterly basis.

The Group's policy on financial instruments can be found in note 26.

19. Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation. Depreciation charges the cost of the assets to the consolidated income statement over their expected useful lives. Office equipment includes computer equipment which is depreciated over three years, and fixtures, fittings and equipment which is depreciated over seven years. Leasehold improvements are amortised over the remaining term of the leases. The depreciation period and method is reviewed annually.

	Office equipment £'000	Leasehold improvements £'000	Total £'000
Cost:			
At 1 July 2014	560	147	707
Additions	46	35	81
At 30 June 2015	606	182	788
Additions	82	185	267
At 30 June 2016	688	367	1,055
Accumulated depreciation:			
At 1 July 2014	468	9	477
Depreciation charge	48	43	91
Exchange difference	12	–	12
At 30 June 2015	528	52	580
Depreciation charge	53	50	103
Exchange difference	(5)	–	(5)
At 30 June 2016	576	102	678
Net book value:			
At 30 June 2015	78	130	208
At 30 June 2016	112	265	377

20. Payables

	30 June 2016 £'000	30 June 2015 £'000
Trade payables	450	469
Taxes and social security	861	1,253
Accruals and other payables	8,520	8,569
	9,831	10,291

Accruals and other payables include accruals for employee and subsidiary LLP member remuneration. The Group's policy on financial instruments can be found in note 26.

21. Share capital

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

	30 June 2016		30 June 2015	
	Number	£	Number	£
Allotted, called up and fully paid:				
Ordinary shares of £0.003 each	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 share premium account arises from the excess paid over the nominal value of the shares issued.

During the year the Group's EBT was formed and purchased Group shares in relation to the PSP scheme (note 7). The shares held are measured at cost.

	£'000
Opening balance at 1 July 2015	–
Acquisition of shares by the EBT	(1,283)
Balance as at 30 June 2016	(1,283)

Notes to the consolidated financial statements *continued*

22. Other reserves

	30 June 2016 £'000	30 June 2015 £'000
Available-for-sale reserve	280	124
Foreign exchange reserve	314	(6)
Capital contribution reserve	4,442	4,442
Capital redemption reserve	84	84
Merger reserve	44,433	44,433
	49,553	49,077

The available-for-sale reserve represents the unrealised fair value movements in available-for-sale financial assets. On disposal the cumulative fair value changes in reserves are reclassified to the income statement.

The foreign exchange reserve represents the cumulative foreign exchange differences arising on US Dollar denominated businesses in the Group as well as currency differences on goodwill and fair value adjustments on the acquisition of foreign subsidiaries, as listed in note 27. On disposal of the US Dollar denominated business, the associated cumulative foreign exchange differences are recycled through the consolidated income statement.

The merger reserve arose on the acquisition of RAMAM in March 2014.

The capital redemption reserve arose from forgiveness of a dividend by the Group's then parent, PSG (£3,867,000) and from an historic acquisition whereby the Group's then parent, PSG, settled part of the consideration in its own shares (£575,000).

The capital contribution reserve arose on an historic acquisition, when PSG (then the Group's parent) awarded PSG shares to the seller in respect of the sale.

The movement in all reserves is detailed in the consolidated statement of changes in shareholders' equity.

23. Operating leases

Office facilities are leased under operating leases. The rental cost is charged to the consolidated income statement on a straight-line basis over the lease term. Rent rebates are accounted for over the period of the lease term.

The Group entered into a non-cancellable operating lease on 26 June 2014 with PSG for the Group's primary office facilities in London until December 2021. The Group receives a rent rebate from PSG amounting to £131,000, payable monthly until 2016.

The future aggregate minimum lease payments under all non-cancellable operating leases, net of rent rebates are as follows:

	30 June 2016 £'000	30 June 2015 £'000
No later than one year	809	632
Later than one year and no later than five years	2,745	2,352
Later than five years	919	200
	4,473	3,184

24. Contingent liabilities

The Directors were not aware of any events which would give rise to a contingent liability of the Group at the reporting date (2015: none).

25. Related party transactions

Related parties to the Group are:

- Key management personnel.
- PSG who hold 38.1% of the issued share capital of the Group and is thus a controlling shareholder.
- Pacific Investments Management Limited, its subsidiary undertakings and controlling shareholder, Sir John Beckwith are considered to be related parties as they have significant influence over the Group.

Significant transactions with Pacific Investments

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

Significant transactions with PSG

	30 June 2016 £'000	30 June 2015 £'000
Administrative charges from PSG:		
Office facilities	875	505
Technology and communications	686	1,007
Professional fees:		
Accounting services	68	255
Legal, compliance and regulatory	–	174
Human resources	–	106
Other	–	90
Total administrative charges and professional fees	1,629	2,137
Advisory fee revenue share received/(paid)	68	(179)

Receivables and payables with related parties

	30 June 2016 £'000	30 June 2015 £'000
Amount due to related party:		
PSG	(35)	–
Total	(35)	–

Key management personnel compensation

Details of key management personnel compensation can be found in note 6.

26. Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as FVTPL when the asset is a trading instrument, or by designation if not. A financial asset may be designated as FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Interest income is recognised by applying the effective interest rate, except for short-term trade and other receivables when the recognition of interest would be immaterial.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due. For trade and other receivables, which are reported net, such provisions are recorded in a separate account with the loss being recognised in the consolidated income statement. On confirmation that the trade and other receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Notes to the consolidated financial statements *continued*

26. Financial instruments *continued*

Cash and cash equivalent balances

Cash and cash equivalents balances comprise cash in hand, cash at agents, demand deposits, and other short-term highly liquid investments that have maturities of three months or less from inception, are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are held at fair value if this can be reliably measured. If the investments are not quoted in an active market and their fair value cannot be reliably measured, the available-for-sale investment is carried at cost, less accumulated impairment. Unless the valuation falls below its original cost, gains and losses arising from changes in fair value of available-for-sale assets are recognised directly in equity through other comprehensive income. On disposal the cumulative net gain or loss is transferred to the statement of comprehensive income. Valuations below cost are recognised as impairment losses in the income statement. Dividends are recognised in the income statement when the right to receive payment is established.

Trade and other payables

Trade payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest method. Interest expense is recognised by applying the effective interest rate, except for short-term trade and other payables when the recognition of interest would be immaterial.

Categories of financial instruments

Financial instruments held by the Group are categorised under IAS 39 as follows:

	30 June 2016 £'000	30 June 2015 £'000
Financial assets		
Cash and cash equivalents	14,147	20,227
Investment management balances	15,448	9,104
Fee receivables	6,488	3,126
Other receivables	9,958	10,101
Total loan and receivables	46,041	42,558
Available-for-sale investments	5,350	5,155
Total available-for-sale	5,350	5,155
Financial assets at fair value through profit or loss	–	130
Total assets at fair value through profit or loss	–	130
Total financial assets	51,391	47,843
Other receivables exclude prepayments.		
	30 June 2016 £'000	30 June 2015 £'000
Financial liabilities		
Investment management balances	14,655	9,201
Trade and other payables	8,933	8,981
Total other liabilities at amortised cost	23,588	18,182
Total financial liabilities	23,588	18,182

Trade and other payables exclude deferred income.

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 due to the short-term nature of the instruments.

Financial risk management

The risks of the business are measured and monitored in accordance with the Board's risk appetite and policies and procedures covering specific risk areas, such as: credit, market and liquidity risk.

26. Financial instruments *continued*

The Group is exposed to credit risk, market risk (including interest rate and foreign currency risks) and liquidity risks from the financial instruments identified above. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them.

Credit risk management

Credit risk refers to the risk that a counterparty defaults on their contractual obligations resulting in financial loss to the Group. The carrying amount of loans and receivables recorded in the financial statements represents the Group's maximum exposure to credit risk. The Group held no collateral as security against any financial asset. Credit risk arises principally from the Group's fee receivables, investment management balances, other receivables and cash balances. The Group manages its credit risk through monitoring the ageing of receivables and credit quality of the counterparties with which it does business.

The ageing of outstanding fee receivables at the reporting date is given in note 17. The Group had no single fee receivable balance at year end that is material to the Group (2015: none).

The banks with whom the Group deposits cash and cash equivalent balances are monitored, including their credit ratings (note 14).

The Group bears risk in relation to the investment management balances held in respect of the River and Mercantile Funds ICVC. If any debtor failed to pay, the Group would redeem the underlying fund units in respect of that debtor, however, it would be subject to risk that the value of the underlying fund units had fallen. The maximum theoretical risk exposure is the full £15.4m value of the receivables multiplied by the percentage decrease in the underlying ICVC position during the period between default and redemption. In order to mitigate the risk of losses arising from late receipt, the Group will seek specific indemnity from counterparties in certain cases. Management monitor the performance and ageing of the investment management positions and take recovery action as appropriate.

Market risk – foreign currency risk management

The Group has foreign currency denominated assets and liabilities primarily arising from the US business (including intra-Group balances) and is therefore exposed to exchange rate fluctuations on these balances. The carrying amount of the Group's foreign currency denominated monetary assets and liabilities all in US Dollars, are shown below in GBP:

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Cash and cash equivalents	654	1,645
Fee receivables	259	372
Payables	(622)	(1,444)
Total	291	573

A 10% fluctuation in the exchange rate between US Dollars and UK Pound Sterling on the outstanding foreign currency denominated monetary items at year end balances would result in a post-tax increase/decrease in profit of £29,000 (2015: £57,000).

The majority of the Group's other foreign currency exposure is with its US-based subsidiary P-Solve LLC. As at 30 July 2016, P-Solve LLC had net assets of US\$720,000 thus any future fluctuations in the exchange rate will have a limited impact on the Group and are therefore considered a low risk.

Foreign exchange risk arising from transactions denominated in foreign currencies are monitored and where appropriate the currency required to settle the transaction may be purchased ahead of the settlement date.

Market risk – interest rate risk management

The Group has minimal exposure to interest rate risk. The Group has no external borrowings and cash deposits with banks earn a floating rate of interest and the interest income is not significant in either year.

Market risk – equity price risk management

Equity price risk is the risk that arises from the volatility in the prices of equity instruments held by the Group. In the case of the Group this is limited to the risk of a decline in the market price of the DAA fund leading to a loss relating to the seeding position. Typically, this would be managed by detailed monitoring of the position and a decision to reduce the holding, however the seeding nature of the investment means that this is less likely. Therefore, the Group would only redeem this position in the case of a significant diminution in value, or if the fund was closing. A 10% fluctuation in the price of the DAA fund as at 30 June 2016 would lead to a credit/charge to the statement of other comprehensive income of £535,000 (2015: £516,000).

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. This risk relates to the Group's prudent liquidity risk management and implies maintaining sufficient cash reserves to meet the Group's working capital requirements. Management monitors forecasts of the Group's liquidity and cash and cash equivalents on the basis of expected cash flow.

Notes to the consolidated financial statements *continued*

26. Financial instruments *continued*

The Group is cash generative before the payment of dividends and has cash and cash equivalent balances that support the Group's working capital requirements. The fee receivable invoicing cycle is generally quarterly; as a result working capital balances are maintained to meet the ongoing expenses of the business during the quarterly cycles. The Group's capital expenditure requirements have not been significant and have been limited to office and IT equipment.

Prior to significant cash outflows (or entering into commitments which would result in significant cash outflows), including dividends, the Group undertakes liquidity and capital analyses.

The Group has entered into an operating lease over its premises. Note 23 discloses the future aggregate minimum lease payments, net of rebates over the next five years.

At 30 June 2016, the Group had cash and cash equivalents of £14.1m (2015: £20.2m).

As ACD of River and Mercantile Funds ICVC, some of the operating cash balance of RAMAM is held in the ACD operating account into which the management fees from the ICVC are paid on a monthly basis. Of the ACD operating account balance at each year end, the proportion attributable to client fund transactions, being the difference between investment management balances (note 15) is controlled by Bank of New York Mellon, and can be utilised by RAMAM within a 24-hour notice period and thus the account is considered liquid. At 30 June 2016, £1.3m (2015: £2.3m) of the cash and cash equivalents balance relating to the ACD account was held.

Liquidity gap analysis

The table below presents the cash flows receivable and payable by the Group under non-derivative financial assets and liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual, undiscounted cash flows.

The net liquidity positions in the table below relate to cash flows on contractual obligations existing at the reporting date. This analysis does not account for any cash flows generated from profits on normal trading activities.

	On demand £'000	< 3 months £'000	3–12 months £'000	1–5 years £'000	> 5 years £'000
As at 30 June 2016					
Assets					
Cash and cash equivalents	14,147	–	–	–	–
Investment management balances	–	15,448	–	–	–
Fee income receivables	–	5,667	821	–	–
Other receivables	–	9,958	–	–	–
Total financial assets	14,147	31,073	821	–	–
Liabilities					
Investment management balances	–	14,655	–	–	–
Trade and other payables	–	8,933	–	–	–
Total financial liabilities	–	23,588	–	–	–
Net liquidity surplus	14,147	7,485	821	–	–
	On demand £'000	< 3 months £'000	3–12 months £'000	1–5 years £'000	> 5 years £'000
As at 30 June 2015					
Assets					
Cash and cash equivalents	20,227	–	–	–	–
Investment management balances	–	9,104	–	–	–
Fee income receivables	–	3,126	–	–	–
Other receivables	–	146	–	–	–
Total financial assets	20,227	12,376	–	–	–
Liabilities					
Investment management balances	–	9,201	–	–	–
Trade and other payables	–	1,253	–	–	–
Total financial liabilities	–	10,454	–	–	–
Net liquidity surplus	20,227	1,922	–	–	–

26. Financial instruments *continued*

Capital management

The Group operates its subsidiaries as self-sufficient entities, which are expected to be able to meeting their funding and capital requirements without recourse to the parent.

The Group's capital structure consists of equity (share capital and share premium) and its retained earnings; it manages its capital on a consolidated and individual basis to ensure that it is able to continue as a going concern. The Group and three of its subsidiaries are regulated entities (two in the UK and one in the US). The Group scrutinises its capital adequacy using the Pillar 2 and ICAAP frameworks which are regulated by the FCA to maintain adequate capital requirements. The Group has complied with its regulatory capital required throughout the period covered by these financial statements.

Financial assets at fair value through profit or loss

As the ACD of the River and Mercantile Funds ICVC, the Group was required to maintain positions in each share class issued, called the 'box position'. The box position acted as a float for investors and enabled them to make or divest investments denominated as a cash amount, as opposed to a number of shares. The fair value of the positions was measured by the underlying value of the respective fund as determined by the third-party Fund Administrator. These values were the values at which investors would subscribe or redeem their holdings in the funds. In the year ended 30 June 2015, the Directors considered that these inputs were categorised under IFRS 13 Fair Value Measurement as Level 2 inputs.

The gain or loss on the value of these positions was included in other income in the income statement. During the year, a change in regulation removed the requirement to hold the box position and the position was sold.

27. Ultimate controlling party and subsidiary undertakings

The Group became publicly listed on 26 June 2014 and remains publicly listed.

Subsidiary undertakings

The following subsidiaries have been included in the consolidated financial information of the Group:

Name	Country of incorporation of registration	Proportion of voting rights/ordinary share capital held %	Nature of business
P-Solve Investments Limited ¹	UK	100/100	Investment management
P-Solve Holdings Limited ¹	UK	100/65	Holding company for the US business
P-Solve LLC ¹	US	100/100	Actuarial and consulting
River and Mercantile Holdings Limited	UK	100/100	Holding company
River and Mercantile Asset Management LLP ¹	UK	100/100	Investment management
River and Mercantile Asset Management LLC ¹	US	100/100	Marketing
River and Mercantile Group Employee Benefit Trust	UK	0/0	Employee benefit trust
River and Mercantile Group Services Limited	UK	100/100	Dormant service company
River and Mercantile Group Trustees Limited	UK	100/100	Dormant service company

1. Indirect holding.

The Company indirectly holds 18,878,569 ordinary shares in P-Solve Holdings Limited which carry 100% of the voting rights. A further 10,165,383 A ordinary shares of P-Solve Holdings Limited (representing 35% of the total issued ordinary share capital) are held by employees of P-Solve LLC. The A ordinary shares of P-Solve Holdings Limited do not carry any voting rights, but rank *pari passu* with the ordinary shares in respect of dividend rights, and capital rights above a hurdle of £1.8m.

Both River and Mercantile Asset Management LLP and LLC have reporting years ending 31 March and 31 December respectively on a stand-alone basis. These were the existing year end dates as at acquisition and no change is expected.

28. New standards and interpretations

There have been no new standards having a material impact on the financial statements for the year.

The following standards and amendments to existing standards have been published and are mandatory from the financial period beginning on or after the effective dates shown below but are not currently relevant to the Group (although they may affect the accounting for future transactions and events).

Notes to the consolidated financial statements *continued*

28. New standards and interpretations *continued*

Topic	Key requirements	Effective date
IFRS 15 Revenue from contracts with customers	IFRS 15 is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition. IFRS 15 supersedes IAS 18 Revenue.	1 January 2018
IFRS 9 Financial Instruments	<p>IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement in its entirety.</p> <p>The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets (payments that are Solely Payments of Principal and Interest (SPPI)).</p> <p>The effective date of the fully completed version of IFRS 9 is for periods beginning on or after 1 January 2018 with retrospective application.</p>	1 January 2018
IFRS 16 Leases	<p>IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor).</p> <p>All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing.</p> <p>Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:</p> <p>a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and</p> <p>b) depreciation of lease assets separately from interest on lease liabilities in the income statement.</p> <p>IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers.</p> <p>IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations.</p> <p>The amendments are not yet endorsed for use in the EU, expected date of endorsement is not yet determined.</p>	1 January 2019
IAS 1 amendments	<p>The IASB has issued amendments to IAS 1 Presentation of Financial Statements as part of an initiative to improve presentation and disclosure in financial reports.</p> <p>The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements.</p>	1 January 2016
Disclosure Initiative: Amendments to IAS 7	The amendments to IAS 7 are intended to improve information provided to users of financial statement about changes in liabilities arising from an entity's financing activities.	1 January 2017

The Directors have assessed the impact that the adoption of these Standards and Interpretations will have on future periods and have concluded that none aside from IFRS 16 will have a material impact on the financial statements of the Group. IFRS 16 will lead to an increase in non-current assets to reflect lease right-of-use assets and in increase in liabilities to reflect future lease payments.

29. Events after the reporting date

Since the end of the financial year, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report or the financial statements that has significantly or will significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group.

A second interim dividend in respect of the year of 3.4 pence per share has been declared. The Directors have proposed a final dividend in respect of the year of 2.5 pence per share. Based upon the number of shares held by the EBT at the year end (upon which dividends are waived), the expected total payments are £2,772,000 and £2,038,000 for the second interim and final dividends respectively.

Company statement of financial position

	Note	30 June 2016 £'000	30 June 2015 £'000
Assets			
Cash and cash equivalents	2	7,633	8,933
Other receivables	3	10,094	6,413
Deferred tax asset	4	437	399
Property, plant and equipment	5	38	–
Investments	6	55,756	55,635
Total assets		73,958	71,380
Liabilities			
Payables	7	1,543	1,252
Corporation tax		–	5
Total liabilities		1,543	1,257
Net assets		72,415	70,123
Equity			
Share capital	8	246	246
Share premium	9	14,688	14,688
Other reserves	10	48,384	48,384
Retained earnings		9,097	6,805
Equity attributable to owners		72,415	70,123

Company statement of cash flows

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Cash flow from operating activities		
Loss before interest, tax and dividends from subsidiaries	(2,636)	(1,188)
Adjustments for:		
Depreciation of property, plant and equipment	2	–
EBT funding	1,283	–
Share-based payment expense	665	530
Operating cash flow before movement in working capital	(686)	(638)
Increase in operating assets	(4,020)	(52)
Increase/(decrease) in operating liabilities	291	(2,782)
Cash used in operations	(4,415)	(3,492)
Taxation received/(paid)	106	(124)
Net cash used in operations	(4,309)	(3,616)
Cash flow from investing activities		
Purchases of property, plant and equipment	(40)	–
Interest received	96	53
Dividend received from subsidiaries	13,749	10,216
Loan to subsidiary	–	(5,000)
Investment in subsidiary	–	(64)
Net cash generated by investing activities	13,805	5,205
Cash flow from financing activities		
EBT funding settled	(945)	–
Dividends paid	(9,851)	(5,664)
Net cash used in financing activities	(10,796)	(5,664)
Net decrease in cash and cash equivalents	(1,300)	(4,075)
Cash and cash equivalents at beginning of year	8,933	13,008
Cash and cash equivalents at end of year	7,633	8,933

Company statement of changes in shareholders' equity

	Share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Capital contribution £'000	Retained earnings £'000	Total £'000
Balance as at 30 June 2014	246	14,688	44,433	84	3,867	2,464	65,782
Comprehensive income for the year:							
Profit for the year	–	–	–	–	–	9,217	9,217
Total comprehensive income for the year	–	–	–	–	–	9,217	9,217
Transactions with owners:							
Dividends	–	–	–	–	–	(5,664)	(5,664)
Share-based payment expense	–	–	–	–	–	530	530
Deferred tax credit on share-based payment expense	–	–	–	–	–	258	258
Total transactions with owners:	–	–	–	–	–	(4,876)	(4,876)
Balance as at 30 June 2015	246	14,688	44,433	84	3,867	6,805	70,123
Comprehensive income for the year:							
Profit for the year	–	–	–	–	–	11,435	11,435
Total comprehensive income for the year	–	–	–	–	–	11,435	11,435
Transactions with owners:							
Dividends	–	–	–	–	–	(9,851)	(9,851)
Share-based payment expense	–	–	–	–	–	786	786
Deferred tax credit on share-based payment expense	–	–	–	–	–	(78)	(78)
Total transactions with owners:	–	–	–	–	–	(9,143)	(9,143)
Balance as at 30 June 2016	246	14,688	44,433	84	3,867	9,097	72,415

Notes to the Company financial statements

1. Basis of preparation

The Company's financial statements have been prepared in accordance with the International Financial Reporting Standards, International Accounting Standards and interpretations, International Financial Reporting Interpretation Committee interpretations, and with those parts of the 2006 Act applicable to companies reporting under IFRS as issued by the International Accounting Standards Board as adopted by the European Union (IFRS) that are relevant to its operations and effective for accounting periods beginning on 1 July 2015.

Principal place of business

The Company's principal place of business is the same as the Company's registered office.

Result for the year

The profit after tax for the year ended 30 June 2016 was £11,435,000 (2015: £9,217,000). This includes a charge of £1,283,000 relating to funding provided to the Group's EBT (2015: £nil).

In accordance with s408 of the Companies Act 2006 a separate income statement has not been presented for the Company. There are no items of comprehensive income other than the result for the year and therefore no statement of comprehensive income has been prepared for the Company.

Foreign currencies

To the extent that the Company undertakes transactions in currencies other than GBP, the transactions are translated into GBP using the exchange rate prevailing at the date of the transaction. Balances denominated in foreign currencies are translated into GBP using the exchange rate prevailing at the balance sheet date. All foreign exchange differences arising from the settlement of transactions or the translation of balances are recognised in operating expenses in the income statement.

Dividends

See note 13 of the consolidated financial statements.

2. Cash and cash equivalents

Cash and cash equivalents balances comprise cash in hand, cash at agents, demand deposits, and other short-term highly liquid investments that have maturities of three months or less from inception, are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Below is a table detailing the credit risk rating of the banks with which the Company holds its cash.

Bank	£'000	Credit Rating	Rating Body
Barclays Bank	7,633	A2 -	Moody's

3. Other receivables

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Taxes and social security	171	113
Prepayments and accrued income	271	290
Amounts owed from Group undertakings	9,642	5,996
Other debtors	10	14
	10,094	6,413

Amounts owed from Group undertakings represent balances incurred in the course of trade and are payable on demand.

4. Tax

The Company's accounting policy in respect of tax is the same as that of the Group as detailed in note 11 of the consolidated financial statements.

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Current tax:		
Current tax on profits for the year	(111)	6
Adjustments in respect of prior years	-	-
Total current tax	(111)	6
Deferred tax on origination and reversal of timing differences	(114)	(141)
Total tax charge	(225)	(135)

4. Tax *continued*

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

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Profit before tax	12,493	9,082
Profit before tax multiplied by the average rate of corporation tax in the UK of 20% (2015: 20.75%)	2,499	1,855
Effects of:		
Income not assessable to tax	(2,750)	(2,119)
Other timing differences	23	(141)
Expenses not deductible for tax purposes	3	240
Total tax charge	(225)	(135)

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Deferred tax assets:		
At beginning of year	399	–
Credit to the income statement – share-based payment expense	116	141
(Charge)/credit to equity – share-based payment expense	(78)	258
At end of year	437	399

5. Property plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation. Depreciation charges the cost of the assets to the consolidated income statement over their expected useful lives.

	Leasehold improvements £'000
Cost:	
At 1 July 2014 and 30 June 2015	–
Additions	40
At 30 June 2016	40
Accumulated depreciation:	
At 1 July 2014 and 30 June 2015	–
Depreciation charge	2
At 30 June 2016	2
Net book value:	
At 1 July 2015	–
At 30 June 2016	38

6. Investments in subsidiaries

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
At start of year	55,635	55,571
Additions – share-based payments in subsidiaries	121	64
At end of year	55,756	55,635

The Company's investments in subsidiaries and associates are stated at cost less provision for any impairment incurred.

Notes to the Company financial statements *continued*

7. Payables

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Trade payables	315	213
Accruals and deferred income	1,228	1,039
	1,543	1,252

Amounts owed to Group undertakings represent balances incurred in the course of trade and are payable on demand.

8. Share capital

Full details of the Company's share capital can be found in the company statement of changes in equity.

9. Share premium

A reconciliation of the movements in share premium can be found in the Company statement of changes in equity.

10. Other reserves

A reconciliation of the movements in reserves can be found in the Company statement of changes in equity. Full details on the nature of the other reserves in the Company can be found in note 22 of the consolidated financial statements.

A breakdown of other reserves is detailed below.

	30 June 2016 £'000	30 June 2015 £'000
Merger reserve	44,433	44,433
Capital contribution reserve	3,867	3,867
Capital redemption reserve	84	84
	48,384	48,384

As at 30 June 2016, the Company had £12,964,000 of distributable reserves (2015: £10,672,000).

11. Financial instruments

A discussion of the financial risks and associated financial risk management, which applies to all of the companies in the Group, can be found in note 26 of the consolidated financial statements, along with the Group's accounting policy in respect of financial instruments.

The financial assets and liabilities of the Company are categorised under IAS 39 as follows:

	30 June 2016 £'000	30 June 2015 £'000
Financial assets classified as loans and receivables		
Cash and cash equivalents	7,633	8,933
Other receivables	9,653	6,123
Total financial assets	17,286	15,056

11. Financial instruments *continued*

Other receivables exclude prepayments and accrued income.

	30 June 2016 £'000	30 June 2015 £'000
Financial liabilities held at amortised cost		
Payables	315	213
Total financial liabilities	315	213

Payables exclude accruals and deferred income.

Credit risk management

Credit risk refers to the risk that counterparty defaults on their contractual obligations resulting in financial loss to the Company. The carrying amount of loans and receivables recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company held no collateral as security against any financial asset. Credit risk arises principally from the Company's inter-company and cash balances. The Company manages its credit risk through monitoring the credit quality of the counterparties with which cash is held and the Company's subsidiaries resources.

The banks with whom the Company deposits cash and cash equivalent balances are monitored, including their credit ratings (note 2).

Market risk – Interest rate risk management

The Company has minimal exposure to interest rate risk. The Company has no external borrowings and cash deposits with banks earn a fixed rate of interest. Interest income is not significant in either year.

Liquidity gap analysis

The table below presents the cash flows receivable and payable by the Company under non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual, undiscounted cash flows.

The net liquidity positions in the table below relate to cash flows on contractual obligations existing at the balance sheet date. They do not take account of any cash flows generated from profits on normal trading activities.

	On demand £'000	< 3 months £'000	3–12 months £'000	1–5 years £'000	> 5 years £'000
As at 30 June 2016					
Assets					
Cash and cash equivalents	7,633	–	–	–	–
Other receivables	9,653	–	–	–	–
Total financial assets	17,286	–	–	–	–
Liabilities					
Payables	315	–	–	–	–
Total financial liabilities	315	–	–	–	–
Net liquidity surplus	16,971	–	–	–	–
	On demand £'000	< 3 months £'000	3–12 months £'000	1–5 years £'000	> 5 years £'000
As at 30 June 2015					
Assets					
Cash and cash equivalents	8,933	–	–	–	–
Other receivables	5,995	126	–	–	–
Total financial assets	14,929	126	–	–	–
Liabilities					
Payables	213	–	–	–	–
Total financial liabilities	213	–	–	–	–
Net liquidity surplus	14,715	126	–	–	–

Other receivables excludes prepayments and payables excludes deferred income.

Notes to the Company financial statements *continued*

12. Directors' remuneration

Details of the individual Directors' remuneration is given in the Directors' Remuneration Report.

13. Related parties

Related parties to the Company are:

- other River and Mercantile Group undertakings;
- key management personnel;
- PSG who hold 38.1% of the issued share capital of the Group and is thus a controlling shareholder; and
- Pacific Investments Management Limited, its subsidiary undertakings and controlling shareholder, Sir John Beckwith are considered to be related parties as they have significant influence over the Group.

The Company entered into the following transactions with related parties:

Related party	Type of transaction	Transaction amount		Balance owed/(owing)	
		30 June 2016 £'000	30 June 2015 £'000	30 June 2016 £'000	30 June 2015 £'000
Punter Southall Group	Admin expense	66	2,084	(35)	–
	Balances	–	–	(22)	(22)
River and Mercantile Group undertakings	Group interest paid	–	–	–	–
	Inter-company balances	–	–	9,651	5,919
	Group cost sharing	3,382	4,607	–	–
	Dividends received	13,749	10,262	–	–

Key management personnel compensation

Details of key management personnel compensation can be found in note 6 of the consolidated financial statements.

14. Other information

The Company has taken the exemption under s408(2) of the Companies Act 2006 to not present their remuneration separately in these financial statements.

A second interim dividend in respect of the year of 3.4 pence per share has been declared. The Directors have proposed a final dividend in respect of the year of 2.5 pence per share. Based upon the number of shares held by the EBT at the year end (upon which dividends are waived), the expected total payments are £2,772,000 and £2,038,000 for the second interim and final dividends respectively.

The Company has not entered into any significant commitments or contingent liabilities after the balance sheet date.

Glossary

ACD	– Authorised corporate director
AGM	– Annual general meeting
AUM	– Assets under management
CGU	– Cash generating unit
CMA	– Competition and Markets Authority
DAA	– Dynamic asset allocation
DB	– Defined benefit
DC	– Defined contribution
EBT	– Employee Benefit Trust
EPS	– Earnings per share
EPSP	– Executive performance share plan. A dilutive share plan awarded to Executives during the Group's IPO
ESG	– Environmental, social, governance
ETF	– Exchange traded fund
FCA	– Financial Conduct Authority
FRC	– Financial Reporting Council
IAA	– Investment advisory agreement
ICAAP	– Internal capital adequacy assessment process
ICVC	– Investment company of variable capital
IFA	– Independent financial advisor
IMA	– Investment management agreement
IPO	– Initial public offering
KPI	– Key performance indicator
LDI	– Liability-driven investment, an investment strategy based on the cash flows needed to fund future liabilities
NUM	– Notional under management
PPF	– Pension Protection Fund, a statutory fund established under the provisions of the Pensions Act 2004 in order to provide compensation to
PSG	– Punter Southall Group Limited
PSP	– Performance share plan
PVT	– Potential, value and timing. The investment strategy employed by the Group's Equity Solutions division
	eligible defined benefit fund members in case of employer insolvency
RAMAM	– River and Mercantile Asset Management LLP
RWAA	– Risk weighted asset allocation
SIPP	– Self-invested pension plan
TIGS	– Total Investment Governance Solution
TSA	– Transitional service agreement
WACC	– Weighted average cost of capital
YoY	– Year-on-year

Adjusted profit after tax represents profit adjusted to add back the amortisation of intangibles assets and EPSP costs, net of taxes. The Directors believe that the 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 and EPSP costs; divided by net management and advisory fees.

Buy-in is the process by which trustees of a pension scheme buy an insurance policy to cover a group of their members. The trustees hold the policy as an asset and remain responsible for paying the pensions.

Buyout is a type of financial transfer whereby a pension fund sponsor pays a fixed amount in order to free itself of any liabilities (and assets) relating to that fund.

Client regretted attrition is the opening AUM/NUM of lost clients, divided by total opening AUM/NUM. It excludes clients which have entered the PPF or left due to achieving funding objectives and moving to buy-in or buyout, 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.

Mandated AUM/NUM represents the Group's closing AUM/NUM, adjusted for any mandates or redemptions in transition.

Glossary *continued*

Mandates in Transition represent the AUM/NUM of mandates which have been awarded by clients at the period-end date and will transition into fee earning assets. The timing, and ultimate amount transitioned is determined by the client. We report an estimated AUM/NUM for those mandates where there is a high likelihood of the amount being transitioned within the next three months.

Net rebalance in the Derivative Solutions division represents the net change in billing notional values of derivatives from existing client mandates and can increase or decrease based on changes in the underlying hedging strategies.

Redemptions in transition are redemptions which have been notified by the client at the period-end date, but where the AUM/NUM is included in fee earning assets at period end. The redemptions will be included in a future period.

River and Mercantile Group PLC

Shareholder information and advisors

Company number
04035248

Registered office
11 Strand
London
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Tel: 020 3327 5100

Company Secretary
Sally Buckmaster

Website
www.riverandmercantile.com

Annual General Meeting
9 December 2016 at 9am
Grand Connaught Rooms
61–65 Great Queen Street
London
WC2B 5DA

Dividends
Where possible, it is recommended that dividend payments are made directly into a bank account to provide improved security and faster access to funds. You may give instruction via the Registrar's website www.shareview.co.uk or in writing.

Final dividend for the financial year ended 30 June 2016

Amount
2.5 pence per ordinary share

Ex-dividend date
24 November 2016

Record date
25 November 2016

Payment date
14 December 2016

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EC4M 7LT

Share listing
River and Mercantile Group PLC's ordinary shares of £0.003 are admitted to trading on the Main Market of the London Stock Exchange under ticker RIV.

Information on the share price and the Company can be accessed via the Company's website or at www.londonstockexchange.com.

Bloomberg
0994474D:LN

ISIN
GB00BLZH7X42

SEDOL code
BLZH7X4

Ticker
RIV

www.riverandmercantile.com

RIVER AND MERCANTILE
GROUP