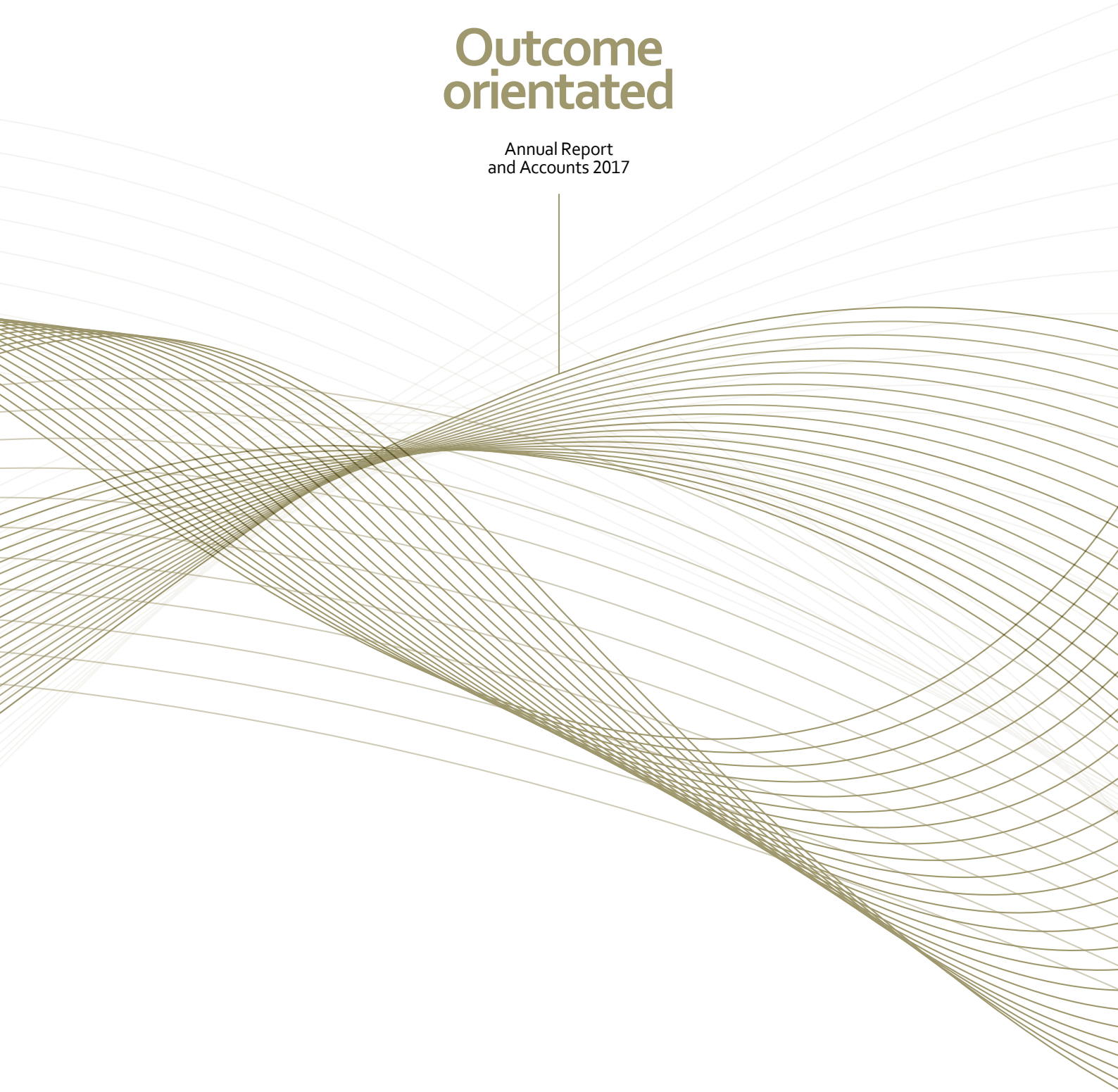


**Client  
focused**

**Outcome  
orientated**

Annual Report  
and Accounts 2017



# River and Mercantile is a client-focused, outcome-orientated advisory and investment solutions business with a broad range of services, from consulting activities including advisory to fully delegated fiduciary and asset management, incorporating equities, derivatives and multi-asset solutions.

River and Mercantile ('the Group') services a client base in the UK comprising institutional pension schemes, wholesale financial intermediaries, insurance companies, state funds and charitable institutions; along with institutional clients in Europe, the US, Australia and New Zealand.

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.

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## 2017 HIGHLIGHTS

01

Strong AUM/NUM growth driving underlying profitability with investment performance driving performance fees

STATUTORY  
PROFIT AFTERTAX

£13.4M ▲128%

REGRETTED  
INSTITUTIONALATTRITION<sup>2</sup>

3%

EARNINGS  
PERSHARE

16.45P ▲130%

NET MANAGEMENT  
AND ADVISORY FEES

£55.9M ▲22%

TOTAL DIVIDEND  
FOR THE YEAR<sup>1</sup>

19.7P ▲107%

PERFORMANCE  
FEES

£12.5M ▲722%

FEE EARNING  
AUM/NUM

£31.0BN ▲22%

13 consecutive quarters  
of positive net flows

ADJUSTED UNDERLYING  
PRE-TAX MARGIN<sup>3</sup>

29% ▲5%

up 5% from 24%

<sup>1</sup> Including 6.0 pence proposed final dividend.

<sup>2</sup> Regretted institutional attrition is the opening AUM/NUM of lost institutional clients, divided by total opening AUM/NUM. It excludes pension clients which have entered the PPF due to sponsor default or have moved to buy-in or buy-out, and redemptions arising due to normal operational cash outflows, e.g. to fund benefit payments. It is not measured for Equity Solutions – Wholesale.

<sup>3</sup> Adjusted underlying pre-tax margin represents net management and advisory fees less associated remuneration, recurring administrative expenses (excluding IT transition costs), depreciation, and finance income and expense; divided by net management and advisory fees.

## CHAIRMAN'S STATEMENT



## A year of strong growth in many areas

**Peter Warry**  
Acting Chairman

Dear Shareholder,

**I am pleased to report that despite a period of unprecedented global change and uncertainty, the year ended 30 June 2017 has been a successful one for the Group, with our strongest set of results to date.**

We have seen strong positive flows in all divisions, continuing our track record of 13 consecutive quarters of positive net flows. This, combined with strong investment performance has led to a significant increase in AUM/NUM and similarly high levels of growth in net management fees.

In June, we welcomed the Emerging Markets ILC team from Credit Suisse in the US. They bring important additional capability to the Group which we hope will further enhance our performance and we look forward to working together.

The Group prides itself on its outcome-oriented approach, where we concern ourselves primarily with the needs of our clients and how single products or combinations of products can help solve these needs. We aim to ensure that our clients understand the role that our solutions play in their broader objectives. This not only continues to benefit our clients, but also contributes to our low levels of attrition alongside our positive client feedback.

This low attrition, combined with the diversified nature of the divisions within the Group, gives rise to a more stable revenue base over time compared to many in our industry.

From a regulatory perspective, the rate of change in our market has been fierce, with no sign of it slowing in the coming months. The landscape is being shaped by MiFID II and the Senior Managers and Certification Regime amongst others, not to mention the FCA's Asset Management Market Study, which reported in June and has been followed by a reference to the Competition and Markets Authority. We welcome the FCA's findings, and the remedies aimed at improving transparency and outcomes for investors.

2017 has seen our highest level of performance fees since our IPO in 2014. We had given guidance that our Fiduciary Management performance fees would be depressed in times of falling interest rates as seen in 2015 and 2016, and it is pleasing to see that they have risen once the rate headwinds have eased. Our view that rates will remain low for longer remains unchanged.

This year has also seen us continue to use our scalable operating platform to grow our profit margins, which combined with a continuation of our high dividend payout ratios has led to increased dividends. In addition to the 5.6p already paid, I am pleased to announce that we are declaring a second interim dividend of 8.1p and proposing a final dividend of 6.0p, both dividends containing 2.8p which relates to net performance fees. These will be paid to shareholders on 3 November and 15 December 2017 respectively and take total dividends proposed and declared for 2017 to 19.7p, which is 86% of adjusted profit after tax.

June 2017 marked three years since our IPO and admission to the premium section of the London Stock Exchange. We feel that our revenue growth, margin expansion and dividend levels are important proof-points against the statements we made at the IPO three years ago and we now turn our attention to continuing the strong results for the next three years.

I write this report as Acting Chairman, following the sad death of Paul Bradshaw earlier this year. He was an asset to the business and is sorely missed. I would, however, like to take this opportunity to welcome Jonathan Dawson, our incoming Chairman who will pick up the baton from 1 October. He brings a wealth of experience to the role which I am confident will prove invaluable to the Group as it navigates its next three years as a PLC.

**Peter Warry**  
Acting Chairman, January – September 2017

## INVESTMENT PERFORMANCE

Our products aim to add meaningful value for clients, in a way that makes a significant difference to their circumstances. All of our solutions are ahead of benchmark since inception.

Annualised Investment Performance By Investment Strategy	AUM £bn Jun-17	Estimated Capacity £bn	1 Year (%)		3 Years (% p.a.)		5 Years (% p.a.)		Since Inception (% p.a.)		
			Abs.	Rel.	Abs.	Rel.	Abs.	Rel.	Abs.	Rel.	Date
TIGS	9.4	30	14.1%	11.3%	14.5%	2.5%	12.4%	4.4%	10.7%	2.7%	Jan-04
PIL Stable Growth Fund			13.8%	10.4%	7.7%	4.2%	8.6%	5.1%	9.0%	5.2%	Dec-08
Inflation Plus Fund			12.5%	9.0%	8.0%	6.0%	8.0%	5.6%	7.2%	4.2%	Mar-04
Fiduciary DC*	0.2		12.5%	6.1%	9.1%	4.4%	9.5%	4.2%	9.5%	4.2%	Oct-11
Fiduciary Insurance	0.1		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Apr-16
Dynamic Asset Allocation Fund	0.1	10	11.1%	10.7%	n/a	n/a	n/a	n/a	6.3%	5.8%	Sep-14
US Fiduciary	0.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
<b>Total Solutions</b>	<b>10.5</b>	<b>40</b>									
Structured Equity	3.6	>20	10.6%	(6.3%)	6.4%	(0.3%)	7.7%	(1.9%)	6.8%	0.6%	Dec-05
LDI	13.2	>30	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Dec-05
<b>Total Derivatives</b>	<b>16.9</b>	<b>&gt;50</b>									
UK Income	0.3	1.5	19.6%	1.5%	8.2%	0.8%	13.6%	3.0%	14.0%	1.7%	Feb-09
UK Smaller Companies	0.8	0.8	37.3%	5.5%	14.2%	5.1%	25.5%	11.5%	13.4%	6.6%	Nov-06
UK Long Term Recovery	0.2	0.3	33.2%	15.1%	8.9%	1.5%	20.6%	10.0%	14.5%	6.1%	Jul-08
World Recovery	0.3	1.0	38.2%	16.0%	13.2%	(1.7%)	n/a	n/a	19.1%	6.5%	Mar-13
World Recovery Focus	0.1	1.0	51.5%	32.7%	6.4%	1.6%	21.2%	10.6%	18.8%	9.1%	Feb-12
UK High Alpha	0.3	1.0	29.1%	11.0%	9.6%	2.2%	17.0%	6.4%	8.8%	2.6%	Nov-06
UK Core Segregated	0.2	0.5	21.9%	3.8%	8.1%	0.7%	11.8%	1.3%	9.7%	1.7%	Nov-10
UK Dynamic Equity	0.2	2.0	25.5%	7.4%	10.4%	3.0%	16.7%	6.1%	7.8%	2.1%	Mar-07
UK Equity Micro Cap Investment Company	0.1	0.1	65.2%	33.4%	n/a	n/a	n/a	n/a	28.8%	15.7%	Dec-14
Global High Alpha*	0.1	7.0	35.7%	13.5%	n/a	n/a	n/a	n/a	19.5%	5.1%	Dec-14
Segregated Mandates	1.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
<b>Total Equity Solutions</b>	<b>3.6</b>	<b>15.2</b>									
<b>Total AUM</b>	<b>31.0</b>	<b>&gt;100</b>									

\* Composite performance.

We have delivered strong and consistent long-term investment returns for our clients across our business and we believe we are in the rare minority of investment businesses where 100% of our current investment products and solutions have delivered positive relative performance against their respective benchmark since inception.

This was recognised by FundCalibre who recently undertook a survey in the equity markets and analysed all fund managers that had more than five eligible funds where each fund had at least a five-year track record. Equity Solutions came top in this survey, which is a testament to the strength of our underlying investment processes and the skill and dedication of our portfolio managers.

In a world that is increasingly bifurcating between passive and active investment management we have clearly demonstrated our ability to deliver to our clients very strong positive relative and absolute outperformance across the entire range of asset management strategies and it is this along with excellence in client service recognised in our client satisfaction survey, that distinguishes our business amongst other asset managers.

## BUSINESS MODEL

### Overall approach to what we do

The core ethos of the Group is to be aligned with our clients' desired outcomes.

Our purpose is simple – to identify our clients' actual financial problems and needs, and solve them as effectively as possible. This involves us doing two things well:

1

Understanding our clients in great depth – in order that we can define the need in the right level of detail that we can solve it fully. This involves us understanding clearly the environment within which they operate. For example, how defined benefit funding works, or the influence of Solvency II on insurance clients, are important to understand if we are to appreciate properly the investment needs.

2

Developing and maintaining very strong investment skills – that can be deployed in various ways to solve these investment challenges.

### How we are structured

The Group is structured into four divisions under two banners:

#### Solutions

led by Jack Berry



**Fiduciary Management**



**Advisory**

#### Asset Management

led by James Barham



**Derivative Solutions**



**Equity Solutions**

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.

### The outcomes for the business

Our 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 relationships result in us being closely involved with the investment process of 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.

This is reflected in our growth in AUM/NUM, low attrition rates, and high client satisfaction.

2017 REGRETTED  
INSTITUTIONAL ATTRITION

3%

CLIENT SATISFACTION  
SURVEY OVERALL SCORE

8.3/10

## How we generate revenue

### The Group generates revenue in four main ways:

#### Management fees

In the Fiduciary Management, Derivative Solutions and Equities Solutions divisions, fees are generally charged based upon levels of Assets under Management or Notional under Management in Derivatives ('AUM' and 'NUM' respectively). 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 Equities and Fiduciary 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.

## The results for

### Shareholders

#### We believe that delivery against our strategy will lead to:

- Strong underlying revenue growth per annum from organic sources over an increasing range of investment solutions
- Continued growth in adjusted underlying profit margin to above 30%
- Continuing growth in underlying dividends, with additional returns from performance fees

### Other Stakeholders

- Our focus on long-term client relationships creates a stable business which allows us to reward our employees and provide strong career development. As a sustainable and profitable business we are able to contribute to the broader community.

## Principal risks

The Group's principal risks can be found on page 28. The most significant this year have been identified as:

- 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.
- The risk of critical systems or connectivity failures leading to an inability of the Group to operate for a period of time. This could lead to trading losses, as well as client losses and reputational damage.
- Significant withdrawals of AUM and/or NUM at short notice and loss of advisory mandates could have an impact on management fees and advisory fees.

## THE DIVISIONS

The Group is organised into four 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 capabilities which can be applied singly or in combination to deliver a client outcome.

### Division



## Fiduciary Management

£10.5bn  
AUM

### What we do

Fiduciary Management involves the delegation by clients of a range of services to the Group, within an agreed governance framework. These include asset allocation, hedging, and manager selection.

Our clients are predominantly DB pension schemes through the Total Investment Governance Solution (TIGS) product, but also now encompass DC and Insurance clients.



## Advisory

180 clients >£25bn  
AUA

The Advisory division provides investment, actuarial and transaction advice to UK DB pension schemes, UK DC pension schemes, US pension schemes and insurance firms.

Advice is given either on a retainer basis, or through ad-hoc projects.



## Derivative Solutions

£16.9bn  
NUM

River and Mercantile Derivatives offers fully tailored segregated derivative solutions. The segregated approach gives full access to a range of derivative strategies.

Our approach allows clients to access:

- LDI
- Synthetic Equity and protection strategies
- Currency hedging

We believe this approach should be accessible to all pension schemes irrespective of size.



## Equity Solutions

£3.6bn  
AUM

River and Mercantile Equity Solutions is a long-only active equity manager providing a range of equity products and solutions across the following markets:

- UK Equities (PVT Team)
- Global Equities (PVT Team)
- Emerging Market Equities (ILC Team)

These investment strategies are offered on a segregated and pooled basis to retail intermediaries on a wholesale basis in the UK, and to institutional clients in the UK, Europe, US, Australia and New Zealand.



## What differentiates us

- One of the longest track records in providing fiduciary management to UK DB pension schemes dating back to 2004 and DC schemes since 2011
- A robust and repeatable macro-economic led investment process which has demonstrated skill in proactively rotating asset class exposure and taking opportunities to generate very strong returns and strong risk management
- A strong focus in our consulting approach on client needs (as evidenced by our client satisfaction scores)
- A clear eye on capacity to ensure all clients can benefit from niche opportunities, often overlooked by the broader market, to deliver strong performance
- Ability to leverage the Group's derivatives capability to provide truly integrated, bespoke risk management solutions irrespective of client size or type
- A performance fee structure linked to a transparent scheme liability benchmark, giving strong alignment of interests

- As an investment specialist, we develop a strong partnership with our clients and their key stakeholders through the delivery of focused investment advice
- Very strong focus in our consulting approach on client needs (as evidenced by client satisfaction scores)
- Direct trading expertise offering deeper insights to macro and derivative markets ensuring proactive advice for clients
- All clients have access to our best ideas and latest thinking, irrespective of their size or approach to engagement – using the same underlying macro-economic led investment process which drives our Fiduciary Management proposition
- We don't believe in the industry's 'set and forget' approach, rather we adapt our advice to clients to get them to their end goal with greater certainty

- We do not offer pooled funds – we believe passionately that a segregated approach provides the best result for clients
- We will work with clients of any size – our average client size is significantly smaller than our competitors
- Equity derivative specialist – we have always provided equity derivative strategies as a core offering and have a long performance track record
- Systems – we have a dedicated system development team which means we can easily systemise what we do to the benefit of our clients
- LGPS – we believe we are the first derivatives manager to have segregated local government pension scheme derivatives documentation

- We believe a specialist investment business, with high levels of ownership and aligned interests represents the best investment environment leading to superior performance for clients
- We look to consistently exploit proven factors to generate strong absolute and relative investment returns with an approach which is systematic, repeatable and scalable
- Our multi-factor approaches and understanding of investment cycles have enabled us to generate strong returns in the past and position us well to continue to deliver for our clients in the future
- We have exceptional fund managers and analysts with significant insight and experience, and outstanding track records and decision making processes that are based off a flat and fully accountable structure where high conviction investments are put into client portfolios

## Strategy highlights

Our strategy falls into three areas:

- Investment: Continue to invest in our macro-economic process to ensure continuing ability to generate strong risk-adjusted returns
- Proposition: Key to our strategy is flexibility, whereby size doesn't constrain or limit our clients' access to our best ideas and innovative thinking. We continue to innovate the delivery of the fiduciary proposition to meet evolving client needs in a flexible manner
- Distribution:
  1. Continue to strengthen relationships with third party intermediaries to support their engagement with prospects;
  2. Articulate directly to market our views on the need (and how and when) to generate return in maturing DB plans

- Flexibility is core to the Advisory division offering clients a tailored service designed specially around their needs, preferences and governance requirements
- The division expects to deepen its client base within its core practice areas, particular DB pension schemes where today the emphasis on investment return is critical. We believe now more than ever there is a need amongst most UK DB plans for strong returns into the future driven by a genuine understanding of macro-economic fundamentals
- The division continues to explore other institutional segments suited to its specialist approach, both within the UK and overseas markets

Our strategy includes working with pension schemes that have been underserved in derivatives management:

- Small private sector pension schemes – sub £500m pension schemes who tend to be limited to pooled funds
- Improve access for Local Government Pension Schemes (LGPS) who have struggled historically to implement derivatives

Our small scheme strategy involves:

- Innovating the approach to segregated LDI to make it feel as easy as a pooled fund
- Educating consultants on the benefit to their clients of a segregated approach with an aim to become known as the champion of small schemes

Our LGPS strategy involves:

- Building a documentation suite to allow LGPS to implement derivatives
- Meeting with LGPS representatives to educate and inform them of the benefits of derivatives

- We will continue to emphasise client engagement, where we spend a great deal of time with our clients understanding their needs and ensuring that the investment products that are developed meet these specific requirements
- We will look to grow in our core UK markets, but also expect to build upon the success of recent mandate wins in the US and Australasian markets to drive growth overseas and provide distribution diversification
- We will continue to broaden our product set to respond to high conviction investment opportunities and sustainable client needs
- We will invest upfront in our people and investment infrastructure to ensure that we have the right mix of experience, skills and investment tools to ensure that we can continue to deliver strong investment returns



## CHIEF EXECUTIVE'S REVIEW

**Mike Faulkner**  
Chief Executive Officer

### TARGET UNDERLYING REVENUE GROWTH

# 12% P.A.

### TARGET MEDIUM TERM UNDERLYING MARGIN

# 30-35%

### REVENUE AT CAPACITY

# £170M

Based on existing products

**This Report marks three years since we brought River and Mercantile to the public markets. While a single year can be a short period of time over which to evaluate a strategy, three years can give a much greater perspective. I therefore want to focus my statement on this by:**

- Re-visiting what we are trying to do as a firm;
- Looking at how we have performed in the last three years including returns to shareholders, particularly in light of our stated aims set out in my 2014 statement; and
- Describing our future strategy.

#### **What we are trying to do as a Group**

Our purpose is simple – to identify our clients' actual financial problems and needs, and solve them as effectively as possible. The Group's outcome-orientated approach, which focuses on tailoring solutions using our various skillsets in order to achieve client outcomes, has conduct at its core.

This involves us doing two things well:

- **Understanding our clients in great depth** – in order that we can define their need in the right level of detail so that we can solve it fully. This involves us understanding clearly the environment within which they operate. For example, how defined benefit funding works, or the influence of Solvency II on insurance clients, are important to understand if we are to appreciate properly the investment need; and
- **Developing and maintaining very strong investment skills** – that can be deployed in various ways to solve these investment problems.

Obviously, these are supported by infrastructure and a broader control environment, but these two activities really define the essence of who we are. Our contention is that this is good for clients, shareholders and employees simultaneously. It makes it more likely that clients will have their needs met and therefore that we will add value for them. Firstly, because our clients are experiencing value, they are more likely to remain with the firm, which in turn produces high quality earnings for shareholders. Secondly, because we operate in a wide range of environments, we get to work on a wide variety of interesting and challenging problems, which improves staff retention and is better in the long-run for clients.

This simultaneous win for our three key stakeholder groups is critical to our model and is the reason we don't deviate from the idea.

Critically, we do tend to stick to problems that are relatively hard to solve, and that therefore require a relatively high level of intellectual content. There are two reasons for this. First, culturally we prefer the challenge of things that are hard to do. Second, it tends to mean we will be less subject to competitive pressures than if we were offering something that is inherently commodity-like in nature.

This approach to working with clients has also driven the initiatives on which we are focusing in the coming years.

## How we performed over the last three years

The table below shows some key metrics illustrating how the business has performed in the last three years.

	2014	2015	2016	2017	CAGR
Growth in Fee-earning AUM/NUM	n/a	21%	22%	22%	21%
Growth in net management and advisory fees	n/a	33%	-2%*	22%	12%
Adjusted underlying pre-tax margin	22%	27%	24%	29%	
Regretted institutional attrition	3%	1%	4%	3%	

\* 2016 revenues were impacted by the closure of the global thematic equity team and the disposal of part of the US business, Palisades.

The table shows a number of important elements. We have succeeded in growing net management and advisory fees at around 12% per annum. This is around the minimum level of medium-term growth we tend to expect across the business, and is lower because we have had to close two activities during the three-year period that were revenue generative (our global thematic equities business and our US pensions transaction business, Palisades). Prospectively, we expect our growth rate to be in excess of this level.

Our adjusted underlying profit margin has widened from 22% to 29%. On the basis of revenue growth, this implies our underlying profit growth is 86% over the three-year period, or 23% per annum.

Our regretted institutional attrition rate has been relatively low during the period, and is a function of our client outcome-led approach to engaging, as I described earlier. As a result, our AUM/NUM growth has been strong. This, coupled with investment performance, has led AUM/NUM growth in the three years to be 21% per annum. This

has outpaced revenue, partly because we have seen a small amount of margin contraction (mainly a mix-of-business effect), but mostly because advisory fees have been relatively flat over the three-year period.

But how does this growth achieved compare with our strategy? In our 2014 Report, I made a series of statements about our strategic intent. The table below lists them, what happened, and identifies whether we achieved the objective or not.

Statement	Outcome	Evaluation
Strong organic growth in Fiduciary Management	Organic growth achieved in Fiduciary Management AUM of 20% pa over the three years	Strong perform
Advisory also to grow	Advisory revenue 1% p.a. down over the three years, but slightly up excluding the effect of Palisades (which was closed)	Under perform
Equity mandates to grow through wholesale...	Wholesale equity growth of 29% p.a. over the three years	Strong perform
...and outcome-led institutional	Global high alpha was developed as a result of a client-led outcome and has been a great success	Strong perform
Derivative growth further fuelled through consultant relationships	Additional derivative assets through intermediary-led relationships of £3.2bn, representing 20% of current NUM	Strong perform
New product launch to accelerate growth	<ul style="list-style-type: none"> <li>- DAA fund – £141m</li> <li>- UK Micro Cap – £100m (capacity)</li> <li>- UK Dynamic Fund – £200m</li> <li>- Global High Alpha – £600m</li> </ul>	Strong perform
	Total new product assets→£1bn	

The table shows that we have performed strongly on five measures, and underperformed on one. In general, assuming we all accept that strategies are rarely delivered perfectly (or else they are unlikely to be sufficiently ambitious!) the business has performed well – we have grown significantly and done it consistently with our intent.

Underlying this is our investment platform, which has delivered strong performance across all of our service offerings. I believe it is rare for any investment firm to have this consistency across product offerings, and that is testament to both the quality of our people and the focus of the business on those things we are confident we can do well.

The table on page 3 shows the investment performance we have achieved across our various strategies and the key thing I would draw out from this analysis is this is not a statement of the percentage of strategies outperforming – such an objective can be achieved by everything outperforming by 0.1% per annum, which is of relatively little value to a client. Rather, our strategies aim to add meaningful value for clients, in a way that makes a significant difference to their circumstances. All of our solutions are ahead of their benchmark since inception.

It is this consistency that led to FundCalibre ranking our Equity Solutions division top for relative outperformance across our range of products over a five-year period. The award was well deserved as it reflects the strength of the PVT investment process, and this consistency is reflected across the whole firm.

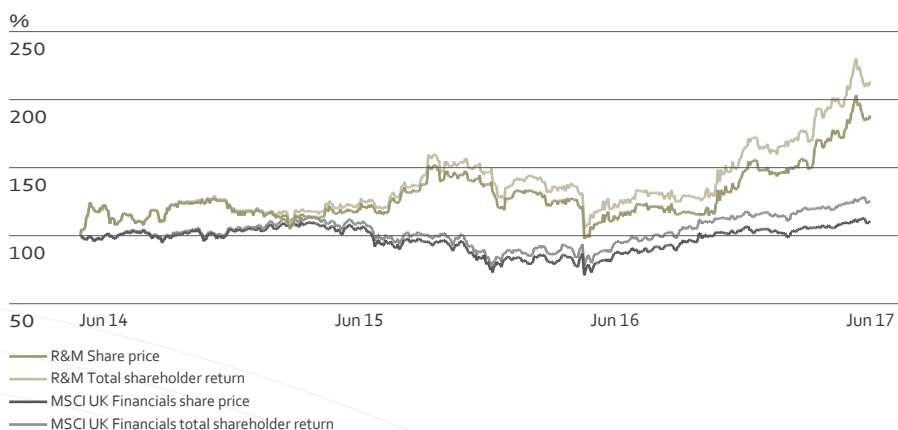
**Returns to shareholders over recent years**

Notwithstanding that markets can, from time to time, value different things other than financials, our returns to shareholders have to date been relatively strong, both in absolute terms and compared to our sector.

In truth though, we do not pay substantial attention to the performance of our sector. Rather, we are focused on the delivery of strong absolute economic returns to shareholders.

Nonetheless, I think that in one respect we need to communicate our story better. As I showed earlier, our attrition rate is very low compared to peers within our industry (a number of our competitors have stopped disclosing the components of client flows, showing only net flows).

**Group share price and TSR performance**



Our client base is very diversified, as is our revenue exposure by asset class, which we are disclosing regularly in our Revenue-weighted asset attribution (RWAA).

Our RWAA is shown in the Financial Review on page 20. The point we are making in disclosing this information on attrition and diversification is that the quality of our revenue is very strong and stable, much more so than most traditional asset management firms (that is not a criticism of those firms – just an observation of the difference between our business models).

I am not yet convinced that these factors are reflected in our valuation, so we will continue to communicate this differentiation to investors.

### Our strategy for the next three to five years

During the last three years, we have significantly developed the depth of our resources and our effectiveness in operating in different distribution channels. Immediately following the IPO, there were channels we aspired to access – specifically the consultant channel. These have been established and we have effective client relationships in these areas. This gives us strategic options that we did not have three years ago and therefore it is right that we refresh our strategy.

I am a great believer in the idea that strategy is 'the evolution of a central idea through changing circumstances'.

Our central idea is this concept of understanding client needs, and solving them well, where we are focused on solving difficult problems. I believe this strength is a competitive advantage in our industry and we work hard for it to remain so.

For the next three to five years, the emphasis in selecting 'difficult' problems will be towards the generation of return, rather than other types of difficulty. Markets seek what they don't have, and markets value growth most highly in those that have it when growth is more generally not present. Similarly, one of the challenges in our industry is that the price of risk management in a wide range of investment products has been very low levels of return. I addressed this in my statement last year, and it remains central to our strategy. I believe investors will observe, progressively, that if the price of risk management is no return, then that price is too high and they will look for alternative solutions.

Therefore, the selection of strategies we offer to meet particular needs will tend to have the characteristics of being significant-return focused, and delivering this return in a way that is consistent with a particular desirable outcome. The strategies and their desired outcomes, will be dependent on the channel desiring them. We currently operate in seven channels as shown in the table below.

Channel	Current strategies represented
UK long-term savings	<ul style="list-style-type: none"> <li>– Fiduciary management</li> <li>– Advice (investment)</li> </ul>
US pensions	<ul style="list-style-type: none"> <li>– Fiduciary management</li> <li>– Advice (actuarial/investment)</li> <li>– Pension risk transfer</li> </ul>
UK institutional	<ul style="list-style-type: none"> <li>– Structured equity</li> <li>– LDI</li> <li>– High alpha (Global and UK)</li> <li>– Recovery</li> </ul>
Wholesale	<ul style="list-style-type: none"> <li>– Small cap equities</li> <li>– Value equities</li> <li>– Income/dynamic equities</li> </ul>
US institutional	<ul style="list-style-type: none"> <li>– Value equities</li> <li>– Derivatives</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>– Fiduciary management</li> <li>– Advice</li> </ul>
Asia Pacific Institutional	<ul style="list-style-type: none"> <li>– Global high alpha</li> </ul>

We believe there is opportunity to widen the range of strategies offered through each channel, as well as adding to the channels.

Area/fund	Current AUM £bn	Estimated capacity £bn	Revenue at estimated capacity <sup>1</sup> £m
Fiduciary Management including DAA Fund	10.5	40	65-75
Derivatives – LDI	13.2	>30	20-25
Derivatives – Structured equity	3.6	>20	10-15
Equities	3.6	15	75-85
<b>Total</b>			<b>170-200</b>

1 Revenue is estimated by taking margin ranges multiplied by estimated capacity.

Importantly, we have significant capacity to grow. Shown in the table to our right is our remaining capacity to take on assets in our existing asset management strategies, along with estimated total management fees when capacity is reached (ignoring performance fees and new products). This shows clearly that we still have very significant room to grow our business through the above channels.

The above tables identify our specific focus to grow the current business, and that we have very significant capacity to grow the business if we are successful.

Given we have developed the number of channels through which we operate, and have significant remaining capacity to support growth in these channels, it makes sense to refresh our strategic objectives for the next three to five years.

**I therefore codify these growth objectives into the following measurable statements, against which I will report on progress in subsequent statements:**

- **We intend to grow our net management and advisory revenue, organically, at a minimum of 12% per annum;**
- **We may make acquisitions to grow faster, but only if it takes us faster in the above direction and in a way consistent with our central idea;**
- **We will aim to increase returns to shareholders through performance fees;**
- **We will aim to grow the smaller channels faster, in order to be significantly more diversified by channel in the next three to five years;**
- **We will launch Global Macro, International (ex US) equity and international (ex US) smaller companies products, along with other products, to support this growth strategy;**
- **We will aim to focus growth by channel, in the first instance, on those products and services identified in the above table; and**
- **We will continue to grow our underlying operating margins to >30% over the medium term, by growing remuneration and admin expenses at a lower rate than net management and advisory fees.**

With this in mind, I would re-emphasise our central idea – I would expect us in the coming years to launch products that are not on the above list, that emerge as a result of client need-led demand. We will certainly add investment capability we do not currently already have in-house, should the right individual or team become available. For example, we would very much like to add capabilities in credit and private markets, should the right opportunities come along. If they do not, we will not add them for the sake of it.

#### Summary

We remain true to our central idea of understanding our clients' problems and needs, and using our investment skills to solve them. This principle has allowed us to grow strongly in the three years since IPO, in a way that has been consistent with the strategy we set out at the time.

As a business we are now far stronger in every way – depth of people, scale and skills, and breadth of clients – and as a result we have refreshed our strategy to reflect this. Our ambition for growth continues, but we will remain focused on our central idea, just applied to a broader range of markets, and with an emphasis on delivering returns.

Finally, on behalf of everyone in the Company, I would like to thank all of you for your continued support – we are grateful for it.

**Mike Faulkner**  
Chief Executive Officer



We remain true to our central idea of understanding our clients' problems and needs, and using our investment skills to solve them



Our ambition for growth continues, but we will remain focused on our central idea, just applied to a broader range of markets, and with an emphasis on delivering returns



As a business we are now far stronger in every way – depth of people, scale and skills, and breadth of clients

# Focused on clients' outcomes

The Group's subsidiary P-Solve launched its US business in 2008, offering investment advisory, actuarial advisory and fiduciary management services. It won its first corporate defined benefit fiduciary management client in November 2008, at the height of the global financial crisis. This client, Altra Industrial Motion, a publicly-listed multinational manufacturer, hired P-Solve to help it 'exit the pension business' within a reasonable timeframe.



P-Solve LLC was initially hired only for DB fiduciary management, however the relationship eventually expanded to include DC investment advisory, actuarial advisory services and ultimately the termination of the defined benefit pension plan in 2017. P-Solve LLC has also helped Altra with its DC plans in the UK.

Over the years, P-Solve LLC has:

- Managed Altra's pension investment risk, generating returns consistent with the stated objectives;
- Designed and executed multiple liability risk-transfers, reducing the size of the plan;
- Advised Altra to accelerate contributions based on Altra's corporate finance position and strategic objectives;
- Consulted on the retirement plans of potential acquisitions;
- Reduced fees and improved the investment options for DC plan participants.

Altra decided to terminate the US defined benefit plan after successfully reaching full funding in 2014. Plan assets have been managed since then to closely match plan liabilities, taking into consideration many factors related to the details of terminating a pension plan. P-Solve LLC's combination of investment and actuarial services and the tight coordination of these teams, helps ensure a smooth plan termination that meets the objectives of the plan sponsor.

Altra has served as a reference for P-Solve LLC over the years and has shared their success story with peers at other plan sponsors. The business will continue to advise on the defined contribution plans once the DB plan is terminated and would likely serve again as the DB advisor to Altra were it to acquire a business that has one.

While from a business standpoint it is disappointing to lose a client like the Altra DB plan, it can be seen as nothing other than the culmination of a successful client engagement process. Our clients invest with well-defined goals. When a goal is ultimately achieved, it may mean that the relationship ends, but that is a successful outcome. Successful outcomes like this will lead to more clients who have similar goals in the future. The US market has thousands of legacy corporate DB plans like Altra's with trillions of dollars in assets. Most of these plans will be terminated in 20 years' time, but there is a lot of business to win in this market and P-Solve LLC's business model that tightly integrates actuarial services with fiduciary management is well-suited to deliver successful outcomes in this market.

## FINANCIAL REVIEW



## Strong improvements across the business

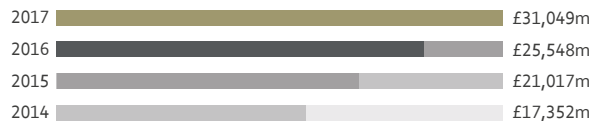
Kevin Hayes  
Chief Financial Officer

- Fee earning AUM/NUM increased by 22%
- Positive net flows in every quarter since IPO – total net flows for the year of £3.8bn
- Positive investment performance of £1.7bn
- Regretted institutional attrition of 3%
- Net management and advisory fees up 22%
- Growth in adjusted underlying margin to 29%
- Adjusted EPS growth of 97%, dividend growth of 107%
- Total shareholder return since IPO of 26.1%

### Key performance indicators

#### 1 Growth in fee earning AUM/NUM

##### Fee earning AUM/NUM



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.

Previously, the Group reported growth in mandated AUM/NUM as its KPI. This has been changed to fee earning AUM/NUM as a more objective measure. The KPI results on the basis of mandated AUM/NUM were 29%, 18%, 17% and 22% for the years 2014-2017 respectively.

#### 4 Adjusted underlying pre-tax margin

##### Adjusted underlying pre-tax margin<sup>1</sup>



The strong revenue growth in the year combined with the scalable operating platform, has led to further growth towards management's stated target of underlying margins in excess of 30%.

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.

<sup>1</sup> See glossary on page 110.

## 2 Client attrition

### Regretted institutional attrition (RIA)



3%

4%

1%

3%

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

RIA is the opening AUM/NUM of lost institutional clients, divided by total opening AUM/NUM. It excludes pension clients which have entered the Pension Protection Fund due to sponsor default or pensions who have moved to buy-in or buy-out, and redemptions arising fund benefit payments.

RIA is not directly measured for Equity Solutions – Wholesale as investor redemption decisions tend to be driven by their asset allocation and investment performance outcomes.

Low client attrition is a direct result of our client engagement process.

## 3 Growth in net management and advisory fees

### Net management and advisory fees



22%

-2%

33%

31%

Following impacts in the prior year from the closure of the global thematic equity team in 2015 and the disposal of the Group's Palisades business in the US in 2016, this year has seen strong growth in this KPI.

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

## 5 Percentage of adjusted earnings per share distributed

### Dividends per share



86%

82%

83%

Interim dividend paid:	5.6p
Declared second interim dividend:	8.1p
Proposed final dividend:	6.0p
Total dividend for the year:	19.7p

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.

**AUM/NUM and margins**

The growth of our net management fee revenue results from the growth of our assets and notional under management and the stability of our management fee margins 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 2017.

Assets Under Management (AUM) and Notional Under Management (NUM)						
£m	Fiduciary Management	Derivative Solutions (NUM)	Equity Solutions			Total AUM/ NUM
			Wholesale	Institutional	Total	
Opening fee earning AUM/NUM	9,287	13,903	1,171	1,187	2,358	25,548
Sales	969	2,800	666	656	1,322	5,091
Redemptions	(650)	(1,443)	(407)	(413)	(820)	(2,913)
Net rebalance	319	1,357	259	243	502	2,178
	–	1,628	–	–	–	1,628
Net flow	319	2,985	259	243	502	3,806
Investment performance	922	–	391	382	773	1,695
<b>Closing fee earning AUM/NUM</b>	<b>10,528</b>	<b>16,888</b>	<b>1,821</b>	<b>1,812</b>	<b>3,633</b>	<b>31,049</b>
Mandates in transition	–	–	–	–	–	–
Redemptions in transition	(2)	(572)	–	–	–	(574)
<b>Total mandated AUM/NUM</b>	<b>10,526</b>	<b>16,316</b>	<b>1,821</b>	<b>1,812</b>	<b>3,633</b>	<b>30,475</b>
Opening mandated AUM/NUM	9,238	13,483	1,171	1,187	2,358	25,079
<b>Increase/(decrease) in fee earning assets</b>	<b>13%</b>	<b>21%</b>	<b>56%</b>	<b>53%</b>	<b>54%</b>	<b>22%</b>
Increase/(decrease) in mandated assets	14%	21%	56%	53%	54%	22%
Average fee earning AUM/NUM	10,236	15,735	1,502	1,470	2,972	28,943
Average margin 2017 (bps)	17-18	6-7	71-72	41-42	56-57	16
Average margin 2016 (bps)	17-18	7-8	73-74	47-48	61-62	16
Medium term margin guidance (bps)	16-17	6-7	66-68	39-40	n/a	n/a
Net management fees 2017 £m	17.7	10.9	10.7	6.1	16.8	45.4

Total sales for the year increased by 16% to £5.1bn. Of these sales, £1.7bn were from new client mandates and £3.4bn were increased allocations and new mandates from existing clients. The ability to grow through our existing clients is an indication of positive client satisfaction through delivering against outcomes and gives the business an overall lower cost of client engagement.

Investment performance added £1.7bn to AUM. Within Fiduciary Management, 33% of the performance was generated from the bond-based matching fund and 67% from the risk assets.

Overall margins have remained stable reflecting slight reductions in individual businesses, offset by an increase in higher margin strategies. Our medium-term management fee margin guidance reflects increasing client mandate sizes and anticipated mix effects.

**Regretted institutional attrition (RIA)**

Our business model is focused on clients' needs and desired investment outcomes, rather than a product-led approach to engagement. This approach results in higher client satisfaction and therefore low redemption rates. We measure this by RIA.

RIA is the opening AUM/NUM of lost institutional clients, divided by total opening AUM/NUM. It excludes pension clients which have entered the Pension Protection Fund due to the sponsors default or pensions who have moved to buy-in or buy-out, and redemptions arising for operational cash flows such as fund benefit payments.

RIA is not directly measured for Equity Solutions – Wholesale as investor redemption decisions tend to be driven by their asset allocation and investment performance outcomes. We closely monitor these outcomes in particular investment performance against benchmarks to determine whether the causes for wholesale attrition are negative client outcomes.

£m	Fiduciary Management	Derivative Solutions	Equity Solutions – Institutional	Total
Gross outflows	650	1,443	413	2,506
Opening AUM/NUM	9,287	13,903	1,187	24,377
Outflow %	7%	10%	35%	10%
<b>RIA 2017</b>	<b>1.1%</b>	<b>3.6%</b>	<b>11.6%</b>	<b>3.0%</b>
RIA 2016	3.5%	4.2%	0.5%	3.5%

This year saw an increase in Equity Solutions – Institutional as the result of a single mandate which was redeemed following a change in investment allocation decision. The overall level remains low, emphasising the stability of the Group's client base.

## Revenue

£'000	2017	2016	Increase/ (decrease)
<b>Net management fees</b>			
– Fiduciary Management	17,677	13,871	27%
– Derivatives	10,883	9,481	15%
– Equity Solutions Wholesale	10,668	8,750	22%
– Equity Solutions Institutional	6,143	4,662	32%
<b>Net management fees</b>	<b>45,371</b>	<b>36,764</b>	<b>23%</b>
<b>Advisory fees</b>			
– Retainers	5,697	6,019	(5%)
– Project fees	4,825	2,886	67%
<b>Advisory fees</b>	<b>10,522</b>	<b>8,905</b>	<b>18%</b>
<b>Total net management and advisory fees</b>	<b>55,893</b>	<b>45,669</b>	<b>22%</b>
<b>Performance fees</b>			
– Fiduciary Management	6,585	1,227	437%
– Equity Solutions	5,964	299	1,895%
<b>Total performance fees</b>	<b>12,549</b>	<b>1,526</b>	<b>722%</b>
<b>Total revenue</b>	<b>68,442</b>	<b>47,195</b>	<b>45%</b>

### Net management fees

Management fees are generally charged 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 seen strong growth in net management fees, with an increase of 23%. This is an excellent result, reflecting the strong growth in AUM/NUM at stable management fee margins.

### Fiduciary Management

Closing fee earning AUM £m	Growth in fee earning AUM	Average AUM £m	Average margin (bps)	Revenue £m	Growth in revenue YoY
10,528	13%	10,236	17-18	17.7	27%

Fiduciary Management has once again enjoyed a successful year, with particularly strong investment performance in the early part of the year, which follows its success last year during the market reaction to Brexit. While the resulting growth in AUM in June last year had minimal impact on revenue in 2016, it had a full year impact this year.

### Multi-Asset Solutions

During the year, the Dynamic Asset Allocation (DAA) Fund has continued to attract investors and at year-end its AUM was £141m (2016: £64m). As the fund has a three-year track record and has reached a sustainable level of AUM, the Group redeemed its £5m seed capital position, realising a gain of £0.8m. The DAA Fund uses the same investment processes as TIGS in Fiduciary Management. Its launch and seeding in 2015 was a strategic priority to give access to the TIGS investment strategy in daily dealing fund format to a broader range of investors, both wholesale and institutional.

## Derivative Solutions

Closing fee earning AUM £m	Growth in fee earning AUM	Average AUM £m	Average margin (bps)	Revenue £m	Growth in revenue YoY
16,888	21%	15,735	6-7	10.9	15%

Derivative Solutions comprises Liability Driven Investing (LDI) including gilt collateral management) and structured equity products.

### Derivatives by type:

£m	Structured equity	Gilts and LDI	Total NUM
Opening fee earning NUM	2,737	11,166	13,903
Sales	1,374	1,426	2,800
Redemptions	(511)	(932)	(1,443)
Net rebalance	43	1,585	1,628
Net flow	906	2,079	2,985
<b>Closing fee earning NUM</b>	<b>3,643</b>	<b>13,245</b>	<b>16,888</b>
Mandates in transition	–	–	–
Redemptions in transition	(572)	–	(572)
<b>Total mandated NUM</b>	<b>3,071</b>	<b>13,245</b>	<b>16,316</b>

Derivatives' structured equity capabilities provide strategies to shape the return profile of clients' equity portfolios.

The majority of structured equity redemptions during the year – and in transition at the year-end – relate to clients repositioning their exposures, due to equity market performance or changes in the underlying asset portfolios.

LDI relates to the management of interest rate and inflation risk in the underlying pension liabilities. 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, helping to defend clients from increases in their liabilities.

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 in revenue YoY
3,633	54%	2,972	56-57	16.8	25%

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

2017 has been a strong year for the Equity Solutions division and its PVT (Potential, Valuation and Timing) investment team with strong sales and investment performance driving AUM above £3.6bn.

The successful globalisation of the PVT process has continued, with mandate wins in the UK, US, Australia and New Zealand. Other significant wins include the £200m mandate from Alliance Trust.

In an environment of increasing client focus on value-for-money, demonstrating strong and sustained investment performance is key to demonstrating positive client outcomes. Across the entire Equity Solutions fund range the inception-to-date investment performance is above benchmark. This was recently recognised when the division was named as the top performing manager in the FundCalibre Fund Management Equity Index 2017, with 5 year average outperformance of greater than 50% above the comparable peer group. The performance of the individual funds can be seen on page 3.

With the exception of the UK Smaller Companies Fund and the UK Micro Cap Investment Company all strategies have significant additional capacity. The pipeline remains strong from institutional clients. Retail markets have been buoyant during the year, with strong wholesale flows, however we remain cautious on the outlook for equity markets in 2018.

In June 2017, we signed a heads of terms and sub-IAA with Credit Suisse Asset Management (CSAM) whereby an emerging market equity investment team (the ILC team), who managed \$352m of assets, transferred to the Group. These strategies are being managed under an investment advisory agreement with CSAM until the Luxembourg registered UCITS funds are transferred to the Group, which is anticipated to occur in the first half of the 2018 financial year. The addition of the ILC team, who have a similar life cycle investment philosophy to the PVT Team, expands our equity solutions expertise into emerging market equities. The assets will be shown in AUM once the underlying funds are transferred to the Group under an IMA.

#### Advisory revenues

The Solutions division earns revenues from clients who engage us on a retained fee basis or from specific projects. This year has seen an 18% increase in advisory revenues driven by increased project fees.

Part of this is due to the market environment, with events like Brexit and other change generating more project work over the year. The strong equity market returns (and improving funding levels) resulted in more client activity, particularly in introducing more downside protection to equity mandates and other de-risking strategies.

The split between retainers and project fees was:

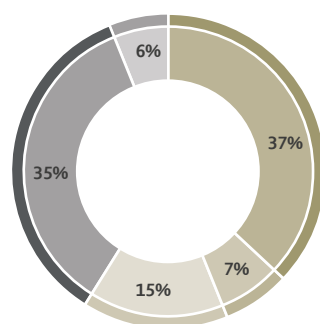
£'000	2017	2016
Retainers	5,697	6,019
Project fees	4,825	2,886
<b>Total advisory fees</b>	<b>10,522</b>	<b>8,905</b>

#### Revenue-weighted asset attribution

The revenues of traditional asset management firms have a high correlation to equity markets. However, the relative diversification of the Group's revenue streams compared to many of our peers mean they display greater stability and resilience to negative equity market movements.

Revenue-weighted asset attribution (RWAA) classifies our management and advisory revenues by the respective driver of the revenue. Management fees from Equity Solutions and Fiduciary Management that relate to equity allocations are classified as having an equity market driver. Likewise, the components of Fiduciary Management that relate to bond and interest rate allocations are classified as having an interest rate driver. Advisory revenues are not market sensitive and therefore are classified as being 'independent'. In Derivative Solutions, while the underlying revenue is generated on hedging strategies in interest rates, inflation and equities, the revenue is not linked to the mark-to-market valuation but to the contractual notional amount of the derivative instrument. As a result, these revenues are also considered independent or cash-like in their characteristics.

#### RWAA – June 2017



Equities – Non-discretionary	37%
Equities – Discretionary	7%
Interest rates	15%
Independent	35%
Other	6%

We believe this shows that the Group is well diversified in its revenue base, with over 50% of revenue derived from sources which will not decrease as a direct result of an equity market downturn. This is not to say that a prolonged downturn would not have an impact on our business over time, but our revenues should show lower volatility than other traditional asset managers.

Within Equity Solutions, while the underlying revenue is related to equity market performance we have a range of strategies that play to different parts of the equity market cycle which forms part of our investment philosophy and process. The income strategies play to the stability of large cap quality companies; the smaller company and micro-cap strategies play to growth cycle; the recovery funds, both UK and World, play to a recovery cycle after a market correction; and the globalisation of the PVT process and the addition of the emerging market team allows us to offer strategies linked to different geographic regions.

RWAA measures a differentiating attribute of our business which is a source of competitive advantage. The cross-cycle stability of our revenue base and therefore our net economics allows us to take a longer term view in hiring, retaining and developing our staff. This gives us a consistency of client engagement and allows us to build long-term trusted relationships with our clients so that we understand their expected outcomes.

### Performance fee revenue

This year has seen a significant increase in performance fees as a result of the strong underlying performance generated by the investment teams, coupled with the more stable interest rate environment in the case of Fiduciary Management.

### Fiduciary Management

Investment performance in TIGS (the main investment strategy within Fiduciary Management) above a benchmark generates performance fees for some clients. During the year, TIGS generated 14% performance including liability hedging.

As we have previously guided, in a stable to rising interest rate environment we would expect to earn higher performance fees from Fiduciary Management. During the year interest rates were more stable. This rate environment combined with the investment performance from assets in the risk portfolios generated investment performance of £0.9bn for clients which resulted in gross performance fees of £6.6m.

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.

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

In the year ended 30 June 2017, of the £6.6m of performance fees earned, £0.2m were from previously deferred performance fees.

In the last two years, TIGS has strongly outperformed its performance hurdles. As a result there are a number of clients who, if performance continues, will crystallise performance fees where previously they did not.

Outperformance each year	Actual fees £m	Estimated TIGS performance fees £m		
	June 2017	June 2018	June 2019	June 2020
0%	6.6	7	14	4
2%	6.6	11	24	17
4%	6.6	13	32	30

### 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, with the exception of the River and Mercantile UK Microcap Investment Company Limited ('RMMIC'). The RMMIC is structured as a closed-ended vehicle. If the net asset value rises above a prescribed value, the independent board of Directors of the RMMIC will consider a redemption of shares and return of capital to investors. At this point, the Group will crystallise a performance fee.

The table below shows the level of performance fees the Group would crystallise at different outperformance levels. It is based upon the following assumptions:

1. Outperformance is consistent each year;
2. The current performance fee eligible AUM is as at 30 June 2017 without change over the period; and
3. The 30 June 2017 performance level is the starting point.

Performance fees were £6.0m for the year ended 30 June 2017, including £4.9m from the RMMIC.

At 30 June 2017, total performance fee eligible assets (excluding RMMIC) were £358m. Of these assets, £302m were above their benchmark by less than 5% and £56m were above their benchmark by more than 5%. The weighted average rate of performance fees in respect of outperformance on the eligible AUM is 16%.

**Administrative expenses**

£'000	2017	2016
Administrative expenses excluding governance	<b>10,007</b>	9,084
Governance costs	<b>413</b>	706
Non-recurring IT project costs	<b>1,142</b>	–
Administrative expenses	<b>11,562</b>	9,790
Total net management and advisory fees	<b>55,893</b>	45,669
Recurring admin expenses vs net management and advisory fees	<b>18.6%</b>	21.4%

While administrative expenses grew at a lower rate than underlying revenues, which is evidence of the scalable operating platform within the business, total administrative expenses did increase. This increase related to market data costs as we expanded our coverage of global market indices to support the growth in the geographical spread of Group offerings, as well as previously guided IT cost increases and a half-year impact of rent increases.

Governance costs fell as a result of the reduction in the number of Non-Executive Directors during the year, plus certain project costs in 2016 which were not incurred in 2017.

As previously indicated, the Group has invested in technology in the year, with the move away from PSG for IT infrastructure provision to a new third party provider and the refresh of our hardware and communication links to make the business more resilient. The migration has been completed on budget of £1.1m, and has delivered increases in performance and resilience of Group IT systems.

Management recognise the importance of cost efficiency, and remain committed to continuing growth in pre-tax margins as outlined in Mike's CEO Report.

However, in 2018 we anticipate that administrative expense to underlying revenue will be in the range of 20–21%, driven by the following areas of increased spend: occupancy; IT and legal costs relating to investment in the funds platform including the Global Macro fund; regulatory compliance; and the new ILC team based in Chicago.

In 2016 we increased our footprint in our office on Coleman Street and in the next year we will be adding additional space to provide for expansion. The lease on our Strand office will end in December 2021 and we have taken the opportunity to align all leases to the same end date. In 2018 we will have a full-year impact of the rent review on the Strand and increases in business rates.

We will incur the cost increase of the new IT infrastructure of £0.3-£0.4m per annum, consistent with our statements in the prior year. In 2017 we incurred additional legal expenses to establish an Irish UCITS umbrella fund for the launch of the Global Macro Fund. In 2018 we will transition from the Credit Suisse Luxembourg UCITS platform to a new platform provider for the ILC Team. In addition we intend to establish a Delaware LLC and Collective Investment Trust in the US to launch Equity Solutions strategies for the PVT and ILC teams. The expansion of our funds platform will allow us to attract a broader investor base both in the US and Europe.

In 2017 we incurred additional legal costs relating to a number of regulatory and compliance initiatives as a result of changes in the UCITS remuneration regime, market abuse and competition regulations and started the work on the implementation of MiFID II. We anticipate that will incur additional legal costs ahead of the implementation in the first half of FY 2018.

**%**  
**ADJUSTED UNDERLYING  
 PRE-TAX MARGIN**  
**29%**  
 Up 5% from prior year



## Remuneration

£'000	2017	2016
Fixed remuneration	20,114	18,423
Variable remuneration	15,201	7,111
Total remuneration (excluding EPSP costs)	35,315	25,534
Total revenue (excluding other income)	68,442	47,195
Remuneration ratio (total remuneration excluding EPSP/total revenue)	52%	54%

Remuneration expense includes: fixed remuneration comprising base salaries, drawings, benefits and associated taxes; and variable remuneration comprising performance bonus, profit share paid to the partners of RAMAM LLP, the amortisation of the fair value of performance share awards under non-dilutive share plans and associated taxes.

Fixed remuneration is allocated to net management and advisory fees. Variable remuneration is accrued on net management and advisory fees, and performance fees.

We had previously stated that we expected the accrual rate of remuneration to be around 54% on net management and advisory fees and 50% on performance fees for the year. However, the strong growth in revenue during the year has allowed us to reduce the accrual rate on net management and advisory fees to 52%, earlier than expected. It is management's intention to reduce this ratio over the medium term, although the level in any given year may be affected by the level of investment in new teams.

To the extent that the Group generates significant performance fees, the Directors will look to lower the remuneration ratio associated with them.

### Executive Performance Share Plan (EPSP)

The EPSP was established at the IPO and Executive Directors were given awards over a maximum total of 7.3m shares, which they would be entitled to receive based upon achieving a compound total shareholder return of between 12% and 30% during the period from IPO to 30 June 2018, with a one-year holding period after vesting until 30 June 2019.

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 expected or actual outcome of the scheme. The payroll tax costs vary as a function of the number of shares expected to vest and the expected share price on vesting.

Based upon the TSR as at 30 June 2017, which was 26%, 5.4m shares would vest. However, as the performance period ends on 30 June 2018, the Directors believe that a reasonable estimate of the number of shares which will vest is 4.8m, representing a TSR of 24%. This generates a charge for the year for National Insurance of £1.1m.

Whilst the actual timing of dividends impacts the result, assuming a dividend yield of 5% per annum, full vesting would occur at a share price of approximately £4.30. At a payroll tax rate of 14.3%, this would generate a payroll tax cost of £4.5m and a corporate tax deduction of £6.0m.

**Statutory and adjusted profits**

£'000	2017	2016	2015
Statutory profit before tax	<b>16,389</b>	7,236	10,525
Statutory pre-tax margin	<b>24%</b>	15%	20%
Adjusted profit before tax	<b>23,427</b>	11,849	15,895
Adjusted pre-tax margin	<b>34%</b>	25%	30%
Adjusted underlying profit before tax	<b>16,360</b>	11,084	12,429
Adjusted underlying pre-tax margin	<b>29%</b>	24%	27%
Adjusted profit after tax	<b>18,589</b>	9,536	12,693

Adjusted underlying profit represents net management and advisory fees less associated remuneration, recurring administrative expenses (excluding IT transition costs), depreciation, and finance income and expense.

Adjusted profit comprises adjusted underlying profit, plus performance fees net of associated remuneration and the gain on disposal of the DAA Fund seed position.

The Directors believe that adjusted profit is a measure of the cash operating profits of the business and gives an indication of the profits available for distribution to shareholders.

Adjusted underlying pre-tax margin represents adjusted underlying profit before tax, divided by net management and advisory fees.

Management have previously stated an objective to grow the adjusted underlying pre-tax margin to above 30% in the medium term. In the prior year, the Group's margin fell as the result of several structural changes made by management including the closure of the global thematic equity strategy with the loss of £0.8bn of AUM, plus a fall in project revenue and other advisory business changes.

**Capital, liquidity and regulatory capital**

The business is strongly cash generative, generating net cash from operations of £24m. Cash and cash equivalents at year end were £31m.

As a business regulated by the UK Financial Conduct Authority, 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 2017, 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 £8m.

ADJUSTED PROFIT BEFORE TAX

£23.4M

Up 98%

### Employee Benefit Trust

The Group's EBT purchases Group shares in the open market to meet the potential vesting of share awards granted under the Group's PSP and DEP share plans, as the Board has stated that grants under these plans will not be dilutive to shareholders.

During the year, the Group's EBT purchased 1.3m shares relating to the previous years' share awards, with a de minimis number being sold as a result of award vestings. The net cost of these transactions was £3.5m and is shown in the statement of changes in equity. As at 30 June 2017, the EBT held 1.9m shares, which broadly corresponds to the number of shares subject to award up to 30 June 2017. The weighted average number of shares in issue has reduced as a result of purchases of own shares by the EBT. The EBT has waived the right to dividends on the shares which it holds.

As at 30 June, the Group had granted share awards which were either expected to vest, or could possibly vest, over 0.6m shares. During the Group's end of year remuneration process, the Group granted share awards over a further 1.0m shares, based upon an estimated grant price. All such share awards are not intended to be dilutive.

### Regulatory matters

#### MiFID II

The changes following from MiFID II and MiFIR (together 'MiFID II') come into effect in January 2018. In broad terms, MiFID II will significantly impact how trading activities are carried on, associated transparency, and also how firms are required to organise and conduct their regulated activities. For the Group, two of the main areas in which MiFID II has an impact relate to enhanced transaction reporting and the charging of research to investors.

The Group's plans to implement enhanced transaction reporting are in place and there is no anticipated increase in administrative costs as a result of this change.

Access to third party research is a critical component in our investment process and is additive to our internal research and screening processes in stock selection and portfolio construction. Third party research provides an important verification process in the development of our investment themes on individual companies and has supported the significant outperformance across our whole range of equity investment strategies.

Historically, the cost of third party research in Equity Solutions has been charged to clients within the expenses of the funds or mandates.

We have reviewed the FCA position papers with regards to research costs and note the approach taken by our industry peers. We are consulting with our clients to determine how they wish to engage with us with regards to research costs. Once this consultation is complete we will provide an update as to our agreed final position.

#### CMA review of advisory and investment management

As part of the Financial Conduct Authority (FCA) Asset Management Market Study the FCA has made a referral to the Competition and Markets Authority (CMA) to carry out a market investigation into the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK.

The CMA has contacted P-Solve Investments Limited and requested information and documents with regards to its investment consulting and fiduciary management business. We are cooperating with these information requests. The review is at an early stage and it is not clear what the outcomes will be.

### FCA competition investigation

The Group's subsidiary RAMAM is co-operating with an investigation by the FCA under its concurrent competition powers (note 24). The matter does not affect any clients of the Group or the NAV of any fund or segregated mandate. The Group has not been notified of the outcome of this investigation however, in the event of a financial impact, the Directors do not expect the net outcome to be material to the financial statements.

### Dividends

On 31 March 2017, an interim dividend of 5.6p per share was paid which included a special dividend of 1.4p relating to net performance fees. The Directors have declared a second interim dividend of 8.1p per share, of which 2.8p is a special dividend relating to net performance fees to be paid on 3 November 2017. In addition the Directors are proposing to shareholders a final dividend of 6.0p per share, of which 2.8p per share is a special dividend relating to net performance fees. Total dividends per share paid, declared or proposed for the year ended 30 June 2017 are 19.7p per share, representing 80% of the adjusted underlying profit after tax and 100% of the net performance fee profit after tax. This is an increase in dividends of 107% compared to the prior year.

### Kevin Hayes

Chief Financial Officer

## RISK MANAGEMENT

### Key developments

The Group's 2017 financial year has seen the continuation of the geopolitical risks that have been a feature of the financial landscape for some time now. The election of a weakened government at home, combined with the 'knowledge' that Brexit will go ahead in some form or fashion as yet uncertain, has nevertheless seen the UK markets continue on in the now familiar pattern of steadily rising markets against a backdrop of macro uncertainty.

The regulator's gaze was turned fully to the asset management sector in the period in the form of the FCA's Asset Management Market Study and the publication of the interim and final reports, the latter right at the end of the financial year. The market investigation reference to the Competition and Markets Authority brings what could be a further eighteen months of uncertainty for those, like the Group, involved in investment consultancy. It is clear that there is further work to be done on many of the study's proposed remedies but equally clear that change is coming to investor disclosure and communication, including with respect to fees and also to fund governance in terms of formalising considerations of investor value for money and the requirement for independent governance on fund boards. The range of prospective change is reasonably well signposted and together with the application of the Senior Managers and Certification Regime, now likely sometime in the second half of 2018, can be addressed on a planned basis.

The pace of regulatory change has continued and the Group has been required to respond accordingly. The final position on the implementation of MiFID II is now known, with relevant requirements in force from January 2018. The changes to market infrastructure and processes which MiFID II introduces mean that there will be changes to systems and controls across the Group including new methods of trading and trade reporting, as well as potential changes to the way in which the Group engages with providers of investment research. Other MiFID II changes will impact the way in which the Group works with platform distributors of its investment products and similarly in the way in which those platforms interact with underlying clients. The implementation of the Market Abuse Regulation led to a wholesale review of the way in which the Group interacts with the market and compliance policies and procedures across the Group generally have been recast with a risk focus in mind. Resources in the second line of defence have been enhanced to give effect to those changes. The introduction of the 4th Money Laundering Directive has required a review of client due diligence procedures and the introduction of the General Data Protection Regulation (GDPR) in May 2018 will introduce additional requirements not only in respect of data protection generally but also in respect of data protection in the context of anti-money laundering and terrorist financing.

Cyber risk and risk relating to information security have both been and continue to be areas of focus and attention within the Group and at the regulator. The Group was able to avoid being impacted by any of the major cyber attacks in the news, but we are aware that such attacks are now part of the everyday operational risk which the Group faces. While a robust IT infrastructure is key, the role of Group staff as gatekeepers of that infrastructure is critical to the protection of the Group from these risks. Staff training and awareness of the risks and how to spot them is an important part of the Group's layered response to managing cyber and information security risk.

### Approach to risk management

The Group's primary focus is on delivering strong outcomes for clients. Risk management in the Group has a focus on this objective, which we consider to be strongly aligned to the outcomes expected by our other constituents: our shareholders; employees; regulators and the broader community. The principal risks which the Group faces are risks relating broadly to this client engagement point, and business risks relating to trading, systems and people.

This outcome-orientated approach to risk management is applied throughout the Group, from the governance approach instilled by the Board and carried through to our employees via the output from the Board's committees and those operated at subsidiary level.

The key Board committees in the risk framework are as set out below:



There are two other Board committees which cover investment risk (the Investment Committee) and client engagement (the Client Engagement Committee). The former provides a governance framework to oversee and support the investment process and considers a broad range of investment themes, including emerging economic and political considerations, monitors the performance of investment products to ensure conformity with expected outcomes and monitors investment risk within the Group in order to ensure that aggregated investment positions are appropriate. The Client Engagement Committee provides a means for direct Board oversight of the client engagement process. The committee views the quality and content of engagement with the Group from the perspective of clients who use or receive the Group's products and services. The committee therefore considers engagement through a client lens and considers whether the needs of clients as recipients of products and services have been appropriately identified and considered across the Group and how in turn that client experience can be used to shape solutions accordingly. Both committees report to the Board (usually by way of written report) at each Board meeting.

### 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.

**1st line** – this comprises the Chief Executive, business management and staff, and the divisional COOs, who ensure that day-to-day activities are managed in accordance with internal policies and the Group's risk appetite. Additionally, the divisional COOs 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.

**2nd line** – this comprises the Risk, Compliance and Legal 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 CFO, however with an independent line to 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, Risk and Legal 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.

**3rd 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](http://www.riverandmercantile.com)

### Sean Breslin

Head of Legal, Risk and Compliance

**Principal risks and uncertainties**

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 skillsets 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.

Highlighted cells are those which the group considers to be the most significant in threatening the Group's business model, future performance, solvency or liquidity.

Management's view on the change in level of risk is that in general, the pace and extent of ongoing regulatory change has led to an increase in regulatory-related risks. Additionally, the risk of cyber-attack represents a growing threat globally and therefore to the Group.

FCA Principle	Definition	Risk and outcome	Mitigations
Integrity	A firm must conduct its business with integrity	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.	<p>The client engagement process necessitates identifying actual or potential conflicts of interest between the Group and the client. Conflicts should be avoided or managed and mitigated in a manner which prevents the risk of damage to client interests. Conflicts which can be effectively managed 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.</p> <p>The Group maintains and operates policies and, organisational and administrative arrangements to identify, monitor, manage, prevent and resolve any material conflicts of interest giving rise to a risk of damage to its clients.</p>
		Reputational damage could lead to a loss of clients, reduction in AUM and/or NUM and a reduction in the profitability of the Group.	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.
Conflicts of interest	A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.	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.	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, client interests are promoted and the risk of damage to clients and potential conflicts are limited.
Skill, care and diligence	A firm must conduct its business with due skill, care and diligence.	The loss of, or inability to train or recruit, key personnel could have a material adverse effect on the Group's business.	<p>Policies, procedures and ongoing training covering product and services, Know Your Customer, anti-money laundering, Treating Customers Fairly and other areas of compliance.</p> <p>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.</p> <p>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.</p> <p>Succession plans identify employees with the potential to fill key business leadership positions.</p>

FCA Principle	Definition	Risk and outcome	Mitigations
Management and control	A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.	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 reputational damage.	Effective group oversight and governance through Board of Directors and Board Committees. Experienced and knowledgeable employees with appropriate segregation of roles and responsibilities.
Market conduct	A firm must observe proper standards of market conduct.		Documentation, policies and procedures govern workflows, internal control procedures and escalation protocols to achieve predictable outcomes. Workflows, internal control processes and escalation protocols designed 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, and maintains appropriate management and oversight. 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.
			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.
		The risk of loss resulting specifically from cyber attack, either to gain control of Group systems, or have Group employees make erroneous transactions.	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 trained and regularly reminded to remain vigilant to the risk of attack and how to respond.

RISK MANAGEMENT

Continued

FCA Principle	Definition	Risk and outcome	Mitigations
Financial prudence	A firm must maintain adequate financial resources.	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.	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 pro-actively to respond to a client's changing outcomes.
Relations with regulators	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.	<p>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.</p> <p>A breach of regulatory requirements could result in fines and sanctions which could diminish the Group's reputation with clients and the market generally.</p> <p>Regulatory changes as a consequence of Brexit may lead to increased levels of regulatory capital or costs of compliance.</p>	<p>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.</p> <p>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.</p> <p>As a regulated entity, the Group and some of its subsidiaries are required to hold appropriate levels of capital and liquidity in order to ensure their sustainability. Systems and controls and the process for assessing the adequacy of financial resources and associated risks (ICAAP) are documented in the Group's ICAAP review 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.</p> <p>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.</p> <p>Finance and Compliance functions operate processes and controls to ensure the timely and accurate submission of information to the FCA.</p>



FCA Principle	Definition	Risk and outcome	Mitigations
Customer's interests	A firm must pay due regard to the interests of its customers and treat them fairly.	<b>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 those outcomes:</b>	
Communications with clients	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.	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.	The client engagement process is based on engagement with regulatory approved investment professionals and advisors who develop with the client their desired client outcomes.
Customers: relationships of trust	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 judgment.		Suitability is assessed by experienced and approved personnel who work closely with clients to understand their needs and desired outcomes to develop tailored solutions. 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.
Client's assets	A firm must arrange adequate protection for clients' assets when it is responsible for them.		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.
		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.	The Group's Investment Committee 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.
		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.	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 Management, 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.

## 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.

The Directors reviewed the viability assessment period of three years, and have confirmed that it remains appropriate as it most closely corresponds to the planning horizons used within the Group.

In order to assess viability over the chosen timeframe, a team was appointed alongside the ICAAP process. This team reported to the CFO and the Audit and Risk Committee, and included the divisional COOs, the Group head of Compliance, Legal and Risk, and senior representatives from the Finance function.

This team considered the principal risks that could threaten the Group's business model, profitability, solvency and regulatory capital adequacy. As the business is strongly cash generative, those which would threaten viability were those which would reduce revenues, or lead to cost increases, thereby eroding regulatory capital and solvency over time. These could be the result of market events and macroeconomic shocks leading to possible investment losses and outflows, operational issues or regulatory changes leading to cost increases, or reputational damage.

Three scenarios were chosen to simulate severe yet plausible outcomes:

1. A market downturn, followed by a recovery. The downturn was assumed to follow the Prudential Regulatory Authorities base stress scenario, which involves an equity market shock, followed by a recovery.
2. A more prolonged downturn, with stagnant recovery over the viability assessment period. This is consistent with stress scenarios the Group uses for certain client portfolio models and provides a different stress to the first case, as it tests the resilience of the business over a longer period due to the lack of recovery.
3. Regulatory change leading to additional costs within the business as a result of structural changes required to the Group.

The scenarios were evaluated using the Group's 2017/18 budget and three-year financial projections as a starting point, with the impact of the changes on revenues and costs modelled on top. As the Group has FCA regulated subsidiaries, the assessments were made at both a Group and subsidiary level as appropriate.

The impact of market moves on asset values and investment performance was modelled by investment teams within the business, and the second order impacts on flows were assessed by the divisional COOs and Group Finance with input from business heads and distribution team members. The impact of cost increases was assessed based upon known costings at current operational levels and the levels of additional resource required.

The Group's balance sheet, cash and regulatory capital positions in each scenario were modelled by Finance by applying known historic behaviours (such as invoicing timing and frequency, average debtor payment days) adjusted for any expected impact on these assumptions arising from the stress scenarios.

The lowest profit, regulatory capital and cash position arose in scenario two, however in each scenario the Group remained profitable, albeit at reduced levels. As a result, this meant that the regulatory capital and cash balances were not eroded and the business remained viable.

The resilience of the business to these different scenarios resulted from:

- The relative diversification of revenue sources between different asset classes, notional amounts and advisory revenues – this is illustrated further in the Group's RWAA on page 20
- The generally institutional nature of many of the Group's clients, leading to less short-term negative impact on flows following market events. This is reflected in the Group's regretted institutional attrition, which is measured on page 18
- The remuneration policy of the Group and the underlying divisions generally being expressed as a percentage of revenue, meaning revenue reductions are partially cushioned by falling variable remuneration levels (up to a point).
- The current strong starting profit levels, combined with a dividend policy which pays dividends based upon actual profits, as opposed to a progressive dividend. Whilst strong dividend returns to shareholders are important to the Directors, this approach gives the Group more flexibility to respond to the most severe stresses.

The nature of the viability testing is that the scenarios chosen should be severe. Where appropriate, the Group has controls and processes in place to reduce the chances of negative events occurring, and mitigate their impact if they do. The most significant change during the year has been the adoption of new, more resilient IT infrastructure, which offers multiple redundancies and data backup techniques to allow near-seamless transition to a backup environment in case of a primary IT failure.

As part of this year's assessment, certain additional actions were identified to respond to severe events. This included formalisation of the process to assess and respond to stress events, with financial triggers identified which would lead to specific actions including managing media, and engaging with regulators, the market and other stakeholders depending on the magnitude of the event.



## CORPORATE RESPONSIBILITY

### People

Our people and 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 2017 this number was 7%.

Our talent management philosophy is based on:

**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. However, we recognise that diversity at senior management and Board level could be improved, and gender diversity is reported to the Remuneration Committee at each meeting. Of the 224 Directors and employees at period end: one of eight Directors; four of 25 senior managers; and 57 of 191 remaining staff were female.

### Work/life balance and support

We offer supportive and flexible working arrangements for our employees. We encourage a balanced approach to working and offer flexible working arrangements to all employees. We have been encouraged to see the uptake of shared parental leave and offer equal potential leave pay, irrespective of gender.

### Values

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

<b>Passionate about client success</b>	We expect our people to be passionate about client success. We care about our clients. We gauge this by whether clients believe our commitment.
<b>Creative – involving, challenging and convincing others</b>	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.
<b>Open, candid and constructive</b>	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.
<b>Demanding of our best</b>	We aim to stretch 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.
<b>Commercial in all that we do</b>	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. The group operates an internal grading system which measures development in the organisation, supported by a promotion panel process.

### Investing

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

The Group directly invests in global 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](http://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
- Environmental, social and governance

### Environmental Matters: Greenhouse gases

We have offices in London, Boston and Chicago. 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 'cycle 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 903 tonnes of CO<sub>2</sub>, including all travel and commuting. The Group has re-estimated its emissions this year as 892 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.

### Modern Slavery

Whilst the Group is not subject to the requirements of the Modern Slavery Act, we take our responsibility to ensure that modern slavery and human trafficking is not taking place in our business or supply chain seriously. We have therefore published a modern slavery statement on our website since 2015. We have surveyed our largest suppliers during the year to confirm their adherence to the Modern Slavery Act.

By order of the Board

**Peter Warry**  
Acting Chairman  
29 September 2017

## BOARD OF DIRECTORS



### Peter Warry

Acting Chairman (from 13 January 2017 till 30 September 2017) and Senior Independent Non-Executive Director

#### Background and experience

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
- Investment Committee (Chair)



### Mike Faulkner

Chief Executive Officer

#### Background and experience

Mike founded P-Solve in 2001 to offer pro-active 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 pension schemes.

He has 25 years of consulting and asset management experience, including senior roles with what is now Willis Towers Watson Ltd and Gensec International. Ranked top of Financial News's annual survey of Europe's most influential asset managers in 2011, he has a mathematics degree from Imperial College, London.



### James Barham

Head of Asset Management and Head of Global Distribution

#### Background and experience

James founded River and Mercantile Asset Management (RAMAM) in 2006 with the backing of Pacific Investments Management Ltd 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 as Marketing Director for Intermediate Capital Group plc. James served in the Royal Welch Fusiliers after Sandhurst.



### Angela Crawford-Ingle

Independent Non-Executive Director

#### Background and experience

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 Committees.

#### Committee membership

- Audit and Risk Committee (Chair)
- Client Engagement Committee (Chair)
- Nominations Committee



### Robin Minter-Kemp

Independent Non-Executive Director

#### Background and experience

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.

#### Committee membership

- Audit and Risk Committee
- Remuneration Committee (Chair)
- Nominations Committee



### Jonathan Punter

Non-Executive Director

#### Background and experience

Jonathan founded Punter Southall Group Ltd with Stuart Southall in 1988 and is the group's Chief Executive. He has more than 30 years' experience in the actuarial profession, with particular expertise in UK pensions and investment strategy. He is a specialist on the issues surrounding pensions in mergers, buy-outs 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.



**Jack Berry**  
Head of Solutions

**Background and experience**

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.



**Kevin Hayes**  
Chief Financial Officer

**Background and experience**

Kevin is a proven FTSE 100 CFO with over 25 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.

## CORPORATE GOVERNANCE REPORT



**Peter Warry**  
Acting Chairman

### 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 in April 2016. This section of the annual report describes how the Company has applied the Main Principles set out in the Code.

The UK Corporate Governance Code is available from the Financial Reporting Council's website at <https://www.frc.org.uk/directors/corporate-governance-and-stewardship>.

The Board considers that the Company and the Group has complied with the Code, except where compliance has been affected by the death of Paul Bradshaw on 12 January 2017. Where this has been the case, it has been explained below and identified as such with an asterisk (\*).

### Board composition

Following the death of Paul Bradshaw, Peter Warry was appointed as the Acting Chairman of the Company.

### From the period 1 July 2016 to 12 January 2017:

Excluding the Chairman, the Board consists of eight members: four Executive Directors, and four Non-Executive Directors – three of whom are regarded as independent.

### From the period 12 January 2017 to 30 June 2017:

Excluding the Acting Chairman, the Board consists of seven members: four Executive Directors, and three Non-Executive Directors – two of whom are regarded as independent.

As the Company is a smaller company, as defined in the Code, it is in compliance with the Code requirement to have at least two independent Non-Executive Directors.

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 Jonathan is valuable 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.

\*Following the death of Paul Bradshaw in January 2017, Peter Warry, the Senior Independent Director, was appointed by the Board as Acting Chairman. No interim Senior Independent Director has been appointed following Peter Warry's appointment as Acting Chairman. The Board considers this to be an interim position and following the year-end, the Board has recruited a new Chairman.

### Board and Committee member attendance for the period ended 30 June 2017

Director	Board quarterly	Board ad-hoc	Audit and Risk	Remuneration	Nomination	Investment	Client Engagement
Paul Bradshaw*	2 of 2*	3 of 3*		4 of 4*			
James Barham	4 of 4	4 of 6					1 of 1
Jack Berry	2 of 4	5 of 6					0 of 1
Angela Crawford-Ingle	4 of 4	5 of 6	5 of 5		1 of 1		1 of 1
Mike Faulkner	4 of 4	3 of 6				4 of 4	
Kevin Hayes	4 of 4	6 of 6					
Robin Minter-Kemp	4 of 4	5 of 6	5 of 5	7 of 7	1 of 1		
Jonathan Punter	3 of 4	5 of 6					
Peter Warry	4 of 4	6 of 6	5 of 5	7 of 7	1 of 1	4 of 4	

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.

\* Paul Bradshaw passed away on 12 January 2017, having attended all meetings prior to this date.



### 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 2017 has been reviewed against external benchmarks and in all cases was approved as being continuously effective.

\*Following the death of Paul Bradshaw, the Independent Non-Executive Directors excluding Peter Warry, have assessed the performance of the Acting Chairman during the year ended 30 June 2017 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 2017 and sought individual Directors' 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. Feedback was also given that the appointment of an internal candidate to the role of Company Secretary has greatly enhanced the effectiveness and efficiency of the Board process.

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.

During the year, the Board established a Client Engagement Committee, 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](http://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. The views of shareholders are reported back to the Board, with investor relations forming a standing agenda item at Board meetings. 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. Subject to PSG holding in aggregate 10% or more of the Group's issued share capital, PSG are able to nominate a Non-Executive Director to the Board.

Jonathan Punter is a Director of the Company.

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.

The Transitional Services Agreement that the Company entered into with PSG on 27 March 2014 terminated on 30 June 2017.

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 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.

**Peter Warry**  
Acting Chairman

## INVESTMENT COMMITTEE



**Peter Warry**  
Chair, Investment Committee

**The Group Investment Committee has continued to ensure that the solutions being implemented by the different business areas are consistent with clients' requirement and Group-wide investment risks are well managed.**

The Committee's role in New Product Development also allows it to fully assess the investment implications of new products and solutions that the business is looking to implement. As an investment business, we understand how crucial it is to get this step right such that solutions make sense from both an investment and client perspective.

Through the constant improvements in expertise, we have continued to improve the Group-wide investment risk analysis. This includes assessing both the effect of a range of market events on our clients' portfolios alongside a fuller understanding of how diversified the business lines are to some of these key shocks.

There is already a considerable amount of detailed analysis conducted across each of our business lines consistent with our clients' investment horizons. The Committee has therefore commissioned research topics on much longer term themes that will affect both investment markets and the business. I have found the ensuing debates to be particularly informative.

Over the next year we will continue to evolve the role of the Committee as the business landscape changes more quickly than ever before. In particular, key developments will include the impact of the FCA Asset Management Market Study and the implementation of MiFID II where we will look to demonstrate that our governance processes are robust, efficient and add to the proper functioning of each business line.

**Peter Warry**  
Chair, Investment Committee



We have continued to improve the Group-wide investment risk analysis

## CLIENT ENGAGEMENT COMMITTEE REPORT

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**Angela Crawford-Ingle**  
Chair, Client Engagement Committee

**The driving concept for the firm is to understand our clients' problems and needs and to use the broad base of investment skills available within the firm to provide an appropriate solution.**

Consequently, the Client Engagement Committee was formed during the year with the express remit to provide the scrutiny and governance from a client perspective and this meet all aspect of the business.

The Committee's primary aim is to ensure the business culture of client-led, outcome-orientated solutions is upheld across the Group. Therefore, the Committee's objectives are to ensure:

- Client needs have been identified across the different client types;
- Products and services are designed to deliver outcomes to meet these needs in whole or in part, both at outset and on an ongoing basis; and
- Services are identified as suitable for each client's needs at the point of delivery and communicated with clarity in a way that is clear, fair and not misleading.

The preliminary meeting focused on establishing the basic operating principles of the committee and supporting matters such as:

- Client related principles and values across the Group;
- Client confidentiality and controls between divisions; and
- Consideration of the Group's 2017 client satisfaction survey.

**Angela Crawford-Ingle**  
Chair, Client Engagement Committee



To ensure the business culture of client-led, outcome-orientated solutions is upheld

## 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.**

**“Continuing to enhance the risk-based compliance oversight for the Group has been a keen area of focus**

As mentioned in the Chairman’s report, the pace of regulatory change has continued to demand focus and vigilance from the Committee which, in addition to a standing agenda item covering a forward-looking assessment of regulatory change impacting the Group, has focused during the period on the specific impact of MiFID II, the Senior Managers’ and Certification Regime, the FCA’s Asset Management Market Study and the remedies proposed in the FCA’s final report.

While certain specific outcomes from the FCA’s report and the final requirements for Senior Managers are subject to further consultations ahead of finalisation, the direction of travel is now relatively clear, so work on those matters will continue in the current period. For MiFID II the timeline and final requirements are known and the remaining challenge for the calendar year is to implement all remaining enhancements to policies, procedures, systems and controls. Requirements in respect of transaction reporting, best execution and research and inducements are the MiFID II items which have required particular focus; finalising requirements in respect of new products and services and the interaction with investment platforms through which Group products are distributed remains to be completed but the bulk of the work has already been done in the review of those processes during the financial year just ended and with the formalisation of the new products committee which has operated during the year just ended.

Continuing to enhance the risk-based compliance oversight for the Group has been a keen area of focus and the new team is making significant strides to improve processes and controls across the Group. Particular improvements have been made in the quality of management information to inform the Committee’s risk-based analysis of the Group’s overall compliance.

Conflicts of interest have continued to be a key theme for the Committee. The Group engaged with the FCA on this topic as part of the Asset Management Market Study and as there is now a Competition and Markets Authority enquiry into investment consulting the topic will remain very much at the forefront of the regulators’ minds in the context of the Group’s business, as it is for the Group as a critical consideration as

part of client engagement. I am delighted that the Client Engagement Committee is now up and running and will facilitate more informed exchanges between the business and the Committee on client engagement issues generally. The Committee oversaw a revision to the Group’s policy on conflicts during the period and a further revision will be made ahead of implementation of MiFID II in January 2018.

Cyber-related risks have been a focus for all and are expected to continue to be so as part of the business as usual landscape going forward. Accordingly the Committee has asked the business to review current arrangements. Staff training is a core component of the Group’s cyber readiness, since it is often the case that malware is invited in rather than forcing entry. The Committee has sponsored an overall increase in awareness about cyber-related issues generally and cyber and associated data protection issues will remain a key area of focus for the Committee going forward. The advent of the General Data Protection Regulation in the Spring of 2018 will be another area of focus.

As reported a year ago, the Group has transitioned its IT infrastructure away from PSG to an independent outsourced provider. The planned implementation and transition went smoothly and the service is now operational. The Committee continues to monitor this and all significant outsourced services to ensure that they meet the standards required.

### Meeting attendance

The Committee met five times. The divisional COOs have continued their regular attendance of parts of the meetings to answer questions and brief the Committee on areas of significance to their divisions, which has facilitated the quality of understanding and speed of response.

Additionally, the Head of Legal, Compliance and Risk has attended all meetings since his joining the Group and his input into the meetings and his impact in reinforcing the Group’s culture has been positive.

### Review of effectiveness of risk management and internal control

The Committee considered the effectiveness of risk management and internal control throughout its agenda during the year, which included review of key risk indicator reporting

from the divisions, a specific review of Finance controls and processes, coupled with the ongoing work from third party internal audit around regulatory compliance and the use of Derivatives. The Group also commenced the process to gain ISAE 3402 controls certification for its Advisory, Fiduciary Management and Derivative Solutions divisions.

The main features of the Group's internal control and risk management systems are set out in the risk management section on page 26.

### Financial reporting

As with any year, a key matter for the Committee was ensuring that the Group's financial reporting was reliable and appropriate and that the UK Code requirements of fairness, balance and understandability were met.

In order to achieve this, the Committee considered reports from management and BDO LLP – the external auditor – 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 and DEP 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, 43% of the awarded shares were expected to vest. However as a result of changes in the Group's share price during the year, and management's expectation in respect of future periods, the current estimate is that 66% of shares will vest. This results in an increase in the charge to the income statement as a result of 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

This is the second year of viability statement reporting, and the Group has increased the level of disclosure in relation to the statement in this year's Annual Report. 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 role in its review and challenge – both of the assessment itself and a work undertaken as part of the ICAAP process which informs the assessment.

### Revenue recognition

Incorrect recognition of revenue is a risk in any business. 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 goodwill and intangibles on consolidation, and the Company holds investments in subsidiaries on a solus basis. 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.

In relation to the disclosure of RAMAM's co-operation with an FCA investigation, the Committee oversaw the internal investigation carried out by a third party at the request of the Group and reviewed correspondence with the FCA and the Group's legal advisers. It also considered accounting papers addressing the details of the matter and the requirements of IAS 37 – Provisions, contingent liabilities and contingent assets.

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

### The external audit process

The re-appointment of BDO LLP was approved by shareholders at the 2016 AGM, with 100% of votes cast being in favour of the motion. 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 2016 tax computations. The Committee considered this 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-minimus 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 were satisfied 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 84.

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 has considered the FRC's Ethical Standard with regards to the provision of non-audit services and has concluded as a result, that despite the knowledge and safeguards in place, future tax computations will be performed by a third party.

### Internal audit

The Group does not have a dedicated internal audit function, but appointed third parties to carry out the checks described above under 'Review of effectiveness of risk management and internal control'. 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 continuation of regulatory compliance, assessing controls and conduct across parts of the organisation.

### 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

### OVERALL REMUNERATION RATIO

# 52%

Lowest since IPO



Remuneration is a measurable outcome for our staff and our Executive Directors and therefore in a competitive world it is one of the key measures for their individual success.

On behalf of the Remuneration Committee (the Committee), I am pleased to present the Remuneration Committee report setting out how the current remuneration policy has been implemented for the year ended 30 June 2017.

The details of the proposed new Directors' remuneration policy, subject to a binding vote of shareholders, is included from page 58. If approved this policy will be effective from 1 July 2017 for the next three years.

### Shareholder engagement on the 2016 report

Last year's Remuneration Committee Report received negative feedback from IVIS and was graded 'Red'. The IVIS comments have been reviewed by the Remuneration Committee, in particular their comments regarding improving the rationale for determining Executive Director discretionary bonuses and the re-measurement of performance conditions in the grant of Performance Share Plan (PSP) awards to two Executive Directors. While the report received approval by 85% of the shareholder vote the Committee has reviewed the matter closely.

During 2017 the Committee has refined the Executive Directors' performance objectives and aligned the metrics more closely to the key performance indicators of the Group. We believe that this more directly relates the performance outcomes for shareholders with the performance objectives and remuneration outcomes for the Executive Directors. We have also reviewed the non-financial measures and more clearly defined the more subjective areas in the delivery of the Group's strategy. The annual performance objectives and the expected outcomes are described in more detail on Page 48. An evaluation of each of the Executive Director's performance against these performance objectives is contained on page 49.

We have also reviewed the feedback we received with regard to the re-measurement of the PSP awards which were made to Jack Berry and Mike Faulkner last year. The performance target was based on achieving a TSR hurdle after three years, but gave two further years in which to reach the Total Shareholder Return (TSR) hurdle if not achieved at the first measurement. The Committee has reconsidered the performance hurdles for these awards and has decided to modify the awards to remove the additional two year vesting window.

**Implementation of UCITS V deferrals**

During the year the Committee considered the implementation of UCITS V remuneration provisions with regard to those Executive Directors involved in activities involving UCITS products. UCITS V requires that a proportion of some Executive Directors' remuneration is deferred into units of UCITS funds and subject to a malus adjustment provision. The Committee concluded that due to their involvement in UCITS products, Kevin Hayes and James Barham would be subject to UCITS V deferrals. The UCITS V regulatory requirements were not envisaged when the current Remuneration Policy was approved in 2014, which provides only for awards under the PSP and does not provide for deferrals per se. The new remuneration policy allows amounts to be deferred into units of UCITS funds and applies to this year on a backward-looking basis. If the policy is not approved, these awards will be paid in the form of PSPs in line with the current policy.

**Our remuneration philosophy**

Our business strategy is based on consistently achieving our client's expected outcomes. We believe that this philosophy drives long-term value for our clients, our business and ultimately our shareholder owners. Our business is by its nature a people business which involves the professional interaction between our people and our clients.

The daily intellectual engagement we present to our employees continues to be the strongest motivator for our people. This is supported through training, advancement and remuneration. While the focus of this report is on remuneration we consider this as only one part of the way in which we motivate and reward our staff, including our Executive Directors.

Remuneration is a measurable outcome for our staff and our Executive Directors and therefore in a competitive world it is one of the key measures for their individual success.

Remuneration is our most significant expense and the variable components of remuneration – being discretionary – give rise to the need to have a clear governance process in order to set the expectations for both our staff and our shareholders. This governance process operates through giving our staff and Executive Directors clear expectations regarding their performance and the metrics for success.

We have likewise given clear guidance to our shareholders regarding the remuneration ratio of the Group. Through this metric, together with the Board's clear statements regarding the Group's distribution policy, we ensure that returns to shareholders remain unchanged.

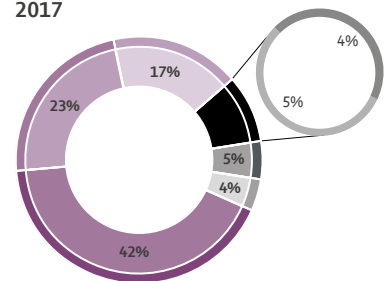
The Group has historically given guidance to shareholders as to the ratio of remuneration to revenue. We feel that this has proven a strong governance control to deliver appropriate levels of remuneration.

Last year, we indicated that based upon the growth of the business and opportunities to invest, the remuneration ratio would be held at 54% of net management and advisory fees and 50% of net performance fees, but with the aim that remuneration ratio would decrease in the medium term. This year the ratio of remuneration to revenue overall is 52% which is the lowest ratio since the IPO.

The reduction in the ratio reflects the fact that in 2017 we had significant revenue growth, including the highest ever performance fees. We believe that this ratio is appropriate for this year and therefore additional returns in the form of dividends will accrue to shareholders. It may be the case that in future periods this ratio will be at the high end of the guided range in order to allow us to invest in additional personnel or investment teams to grow the business.

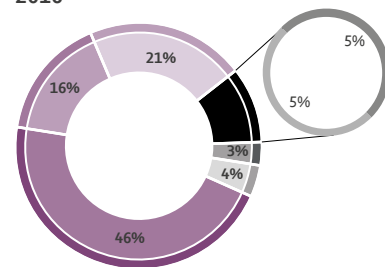
The chart below illustrates how the Group's adjusted revenue and expenses are distributed to stakeholders, including staff and Executive Directors.

**2017**



■ Employee remuneration (excl. tax)	42%
■ Dividends	23%
■ Operating expenses incl. depreciation	17%
■ Executive Director remuneration	5%
■ Retained and other	4%
■ Taxes	
■ Corporation tax	4%
■ Payroll tax	5%

**2016**



■ Employee remuneration (excl. tax)	46%
■ Dividends	16%
■ Operating expenses incl. depreciation	21%
■ Executive Director remuneration	3%
■ Retained and other	4%
■ Taxes	
■ Corporation tax	5%
■ Payroll tax	5%

Summary of remuneration and shareholder distributions

£m	Year ended 30 June 2017	Year ended 30 June 2016	Change
Total remuneration (including EPSP costs)	36.9	25.8	43%
Adjusted profit before tax	23.4	11.8	98%
Distributions to shareholders in respect of the year (pence per share)	19.7	9.5	107%

**Review of the current year financial and non-financial performance**

The Committee has reviewed the Group's key performance indicators and other metrics in assessing the performance of the Executive Directors against their specific performance objectives for 2017.

**Business outcomes 2017**

Client outcomes as measured by net flows and investment performance:

- Fee earning AUM/NUM increased by 22% to £31bn
- Net inflows were £3.8bn in the year, with net sales of £2.2bn and positive rebalancing flows in Derivative Solutions of £1.6bn
- Australian business AUM grew to £121m
- Positive investment performance in all divisions added £1.7bn
- Significantly above benchmark performance across all strategies demonstrating consistent active investment management
- The Group has continued to deliver positive net flows in each of the quarters in 2017 resulting in 13 quarters of net positive flows since IPO
- Regretted Institutional Attrition rate of 3%
- Addition of the Credit Suisse ILC team to increase the breadth of investment capacity to emerging markets
- Growth in Equity Solutions Global High Alpha strategies to create additional capacity for the PVT team
- Growth in the Dynamic Asset Allocation Fund to above £140m

**Client engagement outcomes as measured by external parties:**

- RAMAM awarded the FundCalibre Fund Management Equity Index 2017
- Derivatives Solutions awarded LDI Manager of the Year 2017
- Solutions' client satisfaction score of 8.3 out of 10

**Shareholder outcomes as measured by our financial performance**

- Net management and advisory fees increased by 22%
- Management fee margins maintained within target ranges
- Advisory fees growth of 18%
- Performance fees for the 12 months ended 30 June 2017 were £12.5m
- Underlying remuneration ratio decreased to 52%
- Administrative expenses 21% of management and advisory revenues
- IT infrastructure migration and improvements completed on budget and will facilitate scalability and growth
- Head count increases to support continued growth in consultancy and investment research
- Adjusted underlying pre-tax margin increased to 29%
- Statutory earnings per share increased to 16.45 pence
- Adjusted earnings per share increased to 22.9 pence

**Shareholder outcomes as measured by the market**

- Improved analyst research coverage and shareholder engagement
- Dividends declared and proposed of 19.7 pence per share
- Total shareholder return for the year ended 30 June 2017 of 26%

**The Committee's considered view is that the business has significantly outperformed against the targets set by the Board in the 2017 budget and strategic plan and has created more scale to support future growth in the business.**

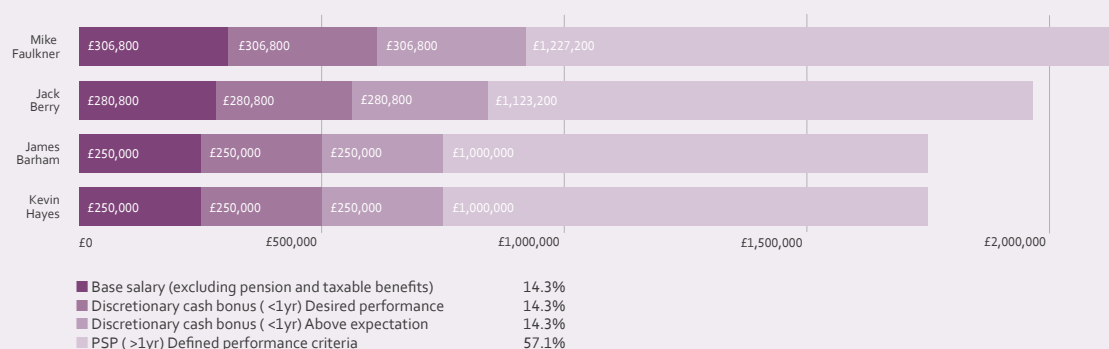


### Summary of current remuneration policy

Executive Directors' remuneration is determined in accordance with the remuneration policy adopted at the Group's AGM held on 23 October 2014. The full Remuneration Policy can be found on the Group's website [www.riverandmercantile.com](http://www.riverandmercantile.com)

Executive Director remuneration comprises base salary, pension and other benefits, cash and performance share plan variable remuneration.

The chart below shows the maximum and relative split of fixed elements of remuneration, annual cash bonus award and PSP under the current policy. The chart was calculated based upon the contractual agreements with the Executive Directors and excludes grants made at the IPO under the EPSP.



£	Base salary	Taxable benefits	Pension	Minimum	Maximum
Mike Faulkner	306,800	2,821	–	309,621	2,150,421
Jack Berry	280,800	2,821	28,080	311,701	1,996,501
James Barham	250,000	3,961	7,500	261,461	1,761,461
Kevin Hayes	250,000	2,821	25,000	277,821	1,777,821

### Executive Director pay decisions for 2017

Considering the Committee's assessment of the overall performance achieved in 2017 and improvements in the business we are mindful of the weighted financial factors that made up the Executive Directors performance objectives. These objectives are individually described with outcomes including the rationale for the respective awards.

The overall 2017 remuneration outcomes for each Executive Director are summarised below together with comparable figures for 2016.

£	Year-ended 30 June 2017					
	Base salary	Taxable benefits <sup>1</sup>	Annual bonus <sup>2</sup>	Performance shares award <sup>4</sup>	Pension contribution <sup>5</sup>	Total
Mike Faulkner	306,800	2,821	613,600	584,000	–	1,507,221
Jack Berry	280,800	2,821	504,000	–	28,080	815,701
James Barham	250,000	3,961	500,000 <sup>3</sup>	251,000 <sup>3</sup>	7,500	1,012,461
Kevin Hayes	250,000	2,821	500,000 <sup>3</sup>	245,000 <sup>3</sup>	25,000	1,022,821

£	Year-ended 30 June 2016					
	Base salary	Taxable benefits <sup>1</sup>	Annual bonus <sup>2</sup>	Performance shares award <sup>4</sup>	Pension contribution <sup>5</sup>	Total
Mike Faulkner	306,800	2,676	–	385,000	–	694,476
Jack Berry	280,800	2,676	–	200,000	28,080	511,556
James Barham	250,000	8,929	300,000	–	7,500	566,429
Kevin Hayes	250,000	8,926	310,000	–	25,000	593,926

- 1 Taxable benefits consist of life assurance, critical illness cover and private medical insurance.
- 2 Annual bonus is gross cash paid or payable in respect of the financial year.
- 3 Bonus includes deferred cash awards pursuant to UCITS V, subject to shareholder approval at the Group's 2017 AGM.
- 4 Performance shares award is the face value of awards granted.
- 5 Pension contribution includes cash allowances and contributions made to self-invested personal pensions.

**Single figure remuneration**

The following table gives the single figure remuneration of Executive Directors for 2017 and 2016 which includes the current year cash bonus and any previously granted deferred awards which vested in the respective year:

£	Year-ended 30 June 2017					Total
	Base salary	Taxable benefits <sup>1</sup>	Annual bonus <sup>2</sup>	Performance shares award <sup>4</sup>	Pension contribution <sup>5</sup>	
Mike Faulkner	306,800	2,821	613,600	–	–	923,221
Jack Berry	280,800	2,821	504,000	–	28,080	815,701
James Barham	250,000	3,961	500,000 <sup>3</sup>	–	7,500	761,461
Kevin Hayes	250,000	2,821	500,000 <sup>3</sup>	–	25,000	777,821

£	Year-ended 30 June 2016					Total
	Base salary	Taxable benefits <sup>1</sup>	Annual bonus <sup>2</sup>	Performance shares award <sup>4</sup>	Pension contribution <sup>5</sup>	
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

- 1 Taxable benefits consist of life assurance, critical illness cover and private medical insurance.
- 2 Annual bonus is gross cash paid or payable in respect of the financial year.
- 3 Annual bonus includes deferred cash awards pursuant to UCITS V, subject to shareholder approval at the Group's 2017 AGM.
- 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.

**Annual cash bonus**

Each Executive Director was assessed against a number of financial and non-financial metrics on a consistent basis in order to determine their performance against the targets in the current policy and their resulting remuneration outcomes:

- **'Desired performance'**: would produce a variable remuneration outcome of 100% of base salary
- **'Above expectation'**: would produce a variable remuneration outcome of 200% of base salary

The metrics used to evaluate the Executive Director performance were grouped into four areas:

**Group-wide objectives**

**Financial growth metrics**

- AUM/NUM growth
- Net management and advisory fee growth
- Investment performance and performance fees
- Net flows
- Underlying profit margin
- Earnings per share

**Other metrics**

- Talent development
- Client engagement
- Governance

**Sales production**

- Budgeted sales flows
- In-force revenue growth
- Regretted Institutional Attrition rate
- Mandate pipeline

**Investment Performance**

- Delivery of above benchmark performance
- Aggregate investment performance
- Performance fees

**Individual objectives**

- Expansion of geographic presence
- Delivery of strategic projects including investment capacity generation
- Delivery of a scalable infrastructure
- Improved shareholder engagement

### Group-wide objectives

This category included financial metrics measuring revenue growth, net AUM/NUM flows, underlying profit margin, earnings per share, and investment performance. This category also included non-financial measures including staff retention and development, client satisfaction and governance metrics. The Group objectives were measured for the Group overall and the Executive Directors are accountable and evaluated as a team with regard to meeting these objectives. Given the spread of responsibilities amongst the Executive Directors each has a direct influence over these Group outcomes.

### Sales production

This area measured the specific sales performance of the relevant Executive Director within their business area. It captured both the aggregate sales and redemptions in absolute terms and also the regretted institutional attrition. Management fee revenue growth is measured both in terms of the absolute revenue earned in the year as well as on an in-force basis in order to reflect the differing product margins within the Group.

### Investment performance

This measured the specific contribution of the CEO to the investment process, as reflected in AUM/NUM growth through performance, and the level of performance fees. Across the Group's range of strategies the delivery of investment outperformance against the stated benchmark is evaluated, together with the growth and management of the available investment management capacity.

### Individual performance against objectives

This measured the success of the individual in achieving their personal objectives set at the start of the year as measured by the Committee.

Whilst not all individuals were measured against all three headings, all were measured consistently against the Group category, which included components of sales and investment performance for the business overall.

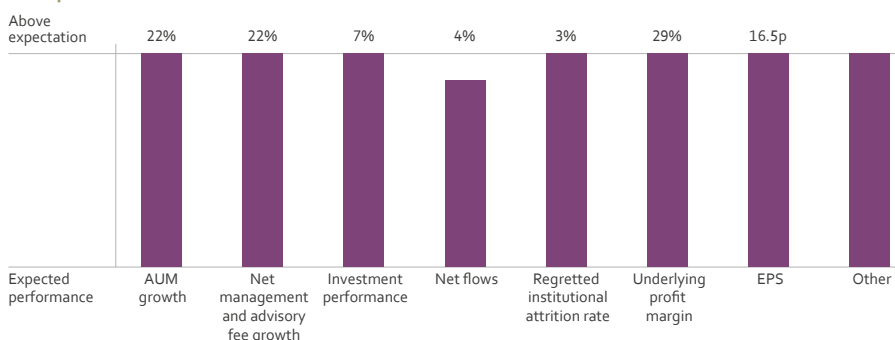
The allocation and weighting of criteria between individual Executive Directors depended on the nature of their specific role and their ability to influence the outcomes and is weighed according to the following table.

	Group	Sales	Investment performance	Personal objectives	Total
Mike Faulkner	70%	–	20%	10%	100%
Jack Berry	50%	35%	–	15%	100%
James Barham	50%	35%	–	15%	100%
Kevin Hayes	80%	–	–	20%	100%

### Evaluation of Executive Director performance

The Committee has evaluated the Group performance in terms of the 2017 budget and strategic plan and concluded that on balance the 2017 performance resulted in an evaluation of above expectation.

### Group metrics score



'Other' includes metrics for staff retention and development, client satisfaction and governance metrics.

### Individual performance

#### Mike Faulkner, CEO

Mike Faulkner's role as CEO of the Group means that he is directly responsible to the Board for the execution of the budget and strategy of the Group. In addition Mike has a significant involvement in the investment management processes, including thought leadership with regard to asset allocation and the development of new investment philosophies and processes. The Group results for 2017 have been exceptional. In addition Mike has personally excelled against his individual and collective objectives. These include areas such as client engagement, investment performance, distribution expansion and product development.

- Investment Performance was positive across all divisions and added £1.7bn to AUM
- Effective client engagement leading to significant mandate wins in structured equity
- Significant progress made on the investment philosophy and process underlying the launch of a new global macro strategy

**Jack Berry, Head of Solutions**

Jack Berry has made strong progress in the Solutions division during 2017:

- Significant growth in advisory fees during the year
- Delivery on high client satisfaction levels across the entire Solutions division
- Strong performance and execution
- Effective management of profit margin targets
- Delivering on targets regarding regretted intuitional attrition in fiduciary management

The business suffered to an extent during the year due to sales being lower than expected as a result of lumpiness in mandate wins which is a factor in the fiduciary management business. This was partly offset through strong sales in implemented derivative solutions, albeit at a lower margin. As a result, Jack Berry's remuneration reflects this outcome.

**James Barham, Global Head of Distribution and Head of Asset Management**

James has delivered substantial added value for the business during 2017, in a wide range of areas:

- Exceeding sales targets within the asset management business
- Delivering on targets regarding regretted intuitional attrition
- Continued development of our client base within Australasia, supporting our stated aim of diversifying the business
- Continued development of our UK institutional derivatives and equities businesses, which has included the opening of new markets
- The emergence of institutional business from the US market

He has also succeeded in creating significantly greater depth in our distribution team, with additional resource being added in both institutional and wholesale teams.

**Kevin Hayes, CFO**

Kevin Hayes has also achieved significant progress in the business this year, including:

- Effective management of cost base and profit margin during the year
- Delivery of strengthened corporate processes across the business for the management of risk
- Strengthened the alignment and talent in the Corporate functions to deliver the Group's strategic plan
- Agreement of the transition of the Emerging Market ILC team from Credit Suisse to the business, adding additional asset management capability
- Significant improvements in corporate communication, analyst coverage and investor relations to support shareholder interaction

**Overall Executive Director performance evaluation**

The outcome of the assessment of each individual was:

	Group	Sales	Investment performance	Personal objectives	Overall
Mike Faulkner	4	N/A	4	4	4
Jack Berry	4	3	N/A	4	3-4
James Barham	4	4	N/A	4	4
Kevin Hayes	4	N/A	N/A	4	4

1 = Weak, 2 = Slightly below, 3 = Desired performance, 4 = Above expectation

Based upon the Group's Executive Directors' remuneration policy, this gives the following cash bonus outcomes (subject to UCITS V deferrals):

### Executive performance assessment result



### Performance share awards

Under the terms of the remuneration policy, Executive Directors are eligible for PSP awards of up to 400% of base salary each year, subject to performance criteria.

Given the very strong performance of the Group in the year, as noted in the highlights above, the Committee has chosen to make PSP awards to the Executive Directors in order to produce an overall remuneration package which the Committee believes reflects a fair reward for their overall performance in the year:

£	Desired total reward	Current reward <sup>1</sup>	PSP award
Mike Faulkner	1,504,000	920,400	<b>584,000</b>
James Barham	1,001,000	750,000	<b>251,000<sup>2</sup></b>
Kevin Hayes	995,000	750,000	<b>245,000<sup>2</sup></b>

1 Base salary, plus cash bonus.

2 Subject to UCITS deferral rules below.

Jack Berry has not been granted a PSP award, as the Committee believe that his overall reward is already at an appropriate level.

The Committee has determined that, to align with the Group's shareholder outcomes, the Executive Directors PSP awards will only vest in full if the Group's shares deliver a compound annual TSR of at least 12% per annum between 1 July 2017 and 30 June 2020. No PSP will vest if the TSR for that period is less than 8%, and the PSP will vest pro-rata if the TSR is between 8-12%.

### UCITS V deferrals

As noted above, the current Executive Director remuneration policy did not envisage the implementation of deferrals under UCITS V. Based upon an assessment of the time spent by Kevin Hayes and James Barham, who have a role relating to UCITS V, plus an analysis to assess the split of remuneration between UCITS and non-UCITS business, the UCITS V regulation requires a proportion of the cash and awards detailed above to be in the form of a holding in the UCITS funds. Vesting of the UCITS V deferral will not be subject to a TSR target but will be subject to a malus adjustment provision. The table below reflects the proposed UCITS V deferrals which, in line with the new policy will be subject to a binding vote of shareholders at the AGM. In the event that the new policy is not approved by shareholders, the amounts will be paid in cash and PSP shares in accordance with the current remuneration policy.

£	Annual bonus			PSP awards			Total variable remuneration
	Annual cash bonus	UCITS up-front cash	Six months instruments	PSP	3 years deferred cash	3 years and six months deferred instruments	
Mike Faulkner	613,600	–	–	584,000	–	–	<b>1,197,600</b>
Jack Berry	504,000	–	–	–	–	–	<b>504,000</b>
James Barham	452,000	24,000	24,000	179,000	36,000	36,000	<b>751,000</b>
Kevin Hayes	462,000	19,000	19,000	187,000	29,000	29,000	<b>745,000</b>

### Review of the Chief Executive Officer's compensation

The CEO's cash bonus has increased from £Nil in the prior year, to £613,600 in the current year. The total variable compensation of the Group has increased by 114% from £7.1m to £15.2m in the same period.

Year	Chief Executive Officer's single figure remuneration £	Annual bonus payout against maximum %	Long-term incentive vesting rate against maximum opportunity %
2014 (six months)	7,801,260 <sup>3</sup>	100%	100%
2015	309,079	0%	N/A <sup>1</sup>
2016	309,476	21% <sup>2</sup>	N/A <sup>1</sup>
2017	923,221	83% <sup>2</sup>	N/A <sup>1</sup>

1 No shares vested during 2015, 2016 or 2017.

2 Includes share awards, not included in single figure remuneration as unvested at year-end.

3 2014 remuneration includes £7.5m of previously issued shares in the pre IPO Group which converted into shares at the IPO.

### Fixed base remuneration and benefits

The direction of travel within the financial services industry continues to influence remuneration approaches towards increasing base pay at the expense of variable compensation, as companies look to achieve similar total compensation using lower salary multiples. We believe this increasingly common practice of increasing fixed costs is to the detriment of achieving the mutual goals of our shareholders and staff. We remain committed to being able to pay upper quartile rewards (compared to our relevant industry peers) should we continue to achieve upper quartile performance as a business while maintaining flexibility of cost base. Therefore, whilst we have proposed the first increases in base salaries for Executive Directors in three years, these are in line with the levels received by all staff over the last three years and reflect the growth in the business and the scope of Executive Directors' roles during that period. The Committee has benchmarked comparable roles and fixed remuneration levels for the Executive Directors.

As a result, the Committee has granted increases of 10% to Mike Faulkner, James Barham and Kevin Hayes, effective 1 July 2017. This increase reflects the growth of the Group and increase in scope of their respective roles during the three year period, and is consistent with the weighted average increase in other employee salaries of 13% during the same period.

### Chief Executive Officer

The Group's CEO, Mike Faulkner is heavily involved in setting the investment direction of the firm. He is a member of the Investment Committee and generates investment ideas which can produce a significant component of the Fiduciary Management division's performance AUM growth and ultimately Group performance fees. He is actively involved in the development of new product lines for the Group which drive growth in returns to shareholders, such as the global macro hedge fund.

### Chief Financial Officer

The Group's CFO, Kevin Hayes has responsibility for a broad part of the business, encompassing many of the areas which would often fall under a COO, such as IT, legal, risk and compliance.

### Head of Solutions

The Group's Head of Solutions, Jack Berry has responsibility for the largest part of the Group's business in headcount terms, encompassing the Fiduciary and Advisory divisions, in the UK and US. The Committee determined that Jack Berry's salary was at an appropriate level and so no increase has been made.

### Global Head of Distribution and Head of Asset Management

The Group's Global Head of Distribution, James Barham is also the Head of the Asset Management business, encompassing Equity Solutions and Derivative Solutions. James has been personally responsible for some of the Group's largest mandates and directly responsible for the growth of the business in the UK, US and Australasia.

Executive Director	Current salary £	New salary £	Increase %
Mike Faulkner	306,800	337,480	10
Jack Berry	280,800	280,800	–
James Barham	250,000	275,000	10
Kevin Hayes	250,000	275,000	10

The proposed new salaries will be implemented effective 1 July 2017.

Benefits provided to Directors are comparable to benefits provided to other employees of the Group.

**Pension contributions**

Jack Berry and Kevin Hayes receive a cash allowance equivalent to 10% of base salary per annum.

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

Mike Faulkner does not receive either a cash allowance or pension contribution.

**Implementation: Outlook for 2017/18**

In line with the new proposed remuneration policy, the Committee will be evaluating Executive Directors on a combination of individual and Group-wide performance objectives, with financial performance measures the key factors. These will include Group KPIs, specific divisional performance and EPS growth. Consideration of culture and conduct will be included to reward high quality conduct which is consistent with the Group's culture.

Under the proposed new policy, The Committee will assess each individual Executive Director's contribution to the Group's performance fees and will be reporting how that was measured and judged in arriving at the proposed remuneration levels.

Consistent with the strategy articulated in the CEO Report the Remuneration Committee will evaluate the Executive Directors against the performance objectives, including the following:

**Financial Metrics:**

- Growth in net management and advisory revenue, organically, at a minimum of 12% per annum
- Growth in underlying pre-tax margins towards 30-35% over the medium term, by growing remuneration and admin expenses at a lower rate than net management and advisory fees
- Growth in earnings per share
- Explore acquisition opportunities to increase investment capacity and geographic reach consistent with the Group's investment solutions strategy

**Distribution Objectives:**

- Sales growth
- In-force revenue growth and mandate pipeline
- Regretted Institutional Attrition rate
- Diversification of distribution channels
- Increased penetration of existing distribution channels, including Australia and US

**Investment Performance Objectives:**

- New product launches to broaden investment solutions and increase investment capacity:
  - Global Macro
  - International (ex US) equity
  - International (ex US) smaller companies products
- Above benchmark investment performance
- Aggregate performance fees to increase shareholder returns

**Individual Objectives:**

- Talent development
- Client engagement
- Governance, culture and conduct

**Individual performance against objectives**

The Committee will measure the success of the individual in achieving their personal objectives set at the start of the year.

Whilst not all individuals will be measured against all three headings, all will be measured against the Group category, which includes components of sales and investment performance for the business overall.

The allocation and weighting of criteria between individual Executive Directors depends on the nature of their specific role and their ability to influence the outcomes and will be weighed according to the following table:

	Group	Distribution	Individual objectives	Total
Mike Faulkner	70%	–	30%	100%
Jack Berry	50%	35%	15%	100%
James Barham	50%	35%	15%	100%
Kevin Hayes	80%	–	20%	100%

**Executive Performance Share Plan (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 Directors consider that the performance conditions represent a significant challenge for executive 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.

Vesting begins at a compound annual TSR hurdle of 12%, up to 30%. 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 shares were not allocated. The Directors do not intend any additional grants to be awarded under the EPSP. During the year ended 30 June 2017 there have been no changes in the Executive Performance Share Plan. The tables below shows the EPSP awards granted and their valuation:

No. Performance A shares	Years ended 30 June 2017 and 30 June 2016	
	Opening shares	Closing shares
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
No. Performance B shares	Opening shares	Closing shares
Mike Faulkner	1,231,430	1,231,430
James Barham	1,231,430	1,231,430
	2,462,860	2,462,860
<b>Total EPSP Shares</b>	<b>7,306,486</b>	<b>7,306,486</b>



Executive Performance Share Plan	Value at grant date fair value	Value at grant date share price
<b>Performance A shares</b>		
Fair value/Grant date share price	£ 0.38	£1.83
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
<b>Performance B shares</b>		
Fair value/Grant date share price	£0.17	£1.83
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 Ernst & Young LLP.

The EPSP plan is structured to align vesting to the total shareholder return (TSR) received by shareholders during the vesting period. The table below illustrates 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 £m	EPSP value at vest £m			% of shareholder value creation		
		A shares	B shares	Total	A shares	B shares	Total
12%	211	–	–	–	0%	0%	0%
24% <sup>1</sup>	286	18	–	18	6%	0%	6%
30% <sup>2</sup>	330	22	11	33	7%	3%	10%

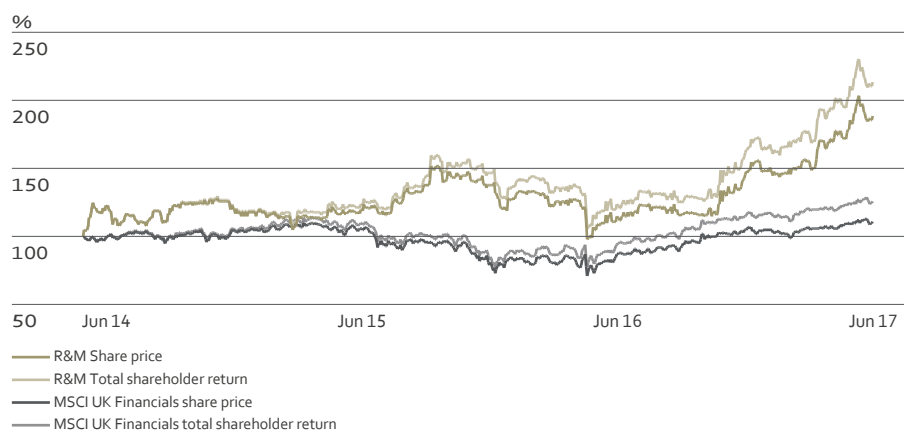
1 24% TSR leads to vesting of all A awards

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

### Share performance

The graph below shows the performance of the Company's shares since IPO, compared to the UK financial sector as measured by the MSCI UK financials index. In the year under review, the shares delivered a TSR of 85%, significantly outperforming the sector average of 42%.

### Group share price and TSR performance



Summary of remuneration and distributions

£m	Year ended 30 June 2017	Year ended 30 June 2016	Movement
Total remuneration	35.3	25.5	38%
EPSP expense	1.6	0.3	433%
Distributions to shareholders in respect of period	15.9	7.8	104%
Distributions to shareholders recorded in period	9.3	9.9	-6%

**Non-Executive Director remuneration**

The table below shows the total remuneration of the Non-Executive Directors paid during the years ended 30 June 2017 and 30 June 2016. Jonathan Punter's fees were paid directly to PSG.

**Chairman and Non-Executive Directors**

£	Year-ended 30 June 2017	
	Base fees	Additional fees <sup>1</sup>
Paul Bradshaw (passed away 12 January 2017)	64,167	–
Angela Crawford-Ingle	42,500	8,000
Robin Minter-Kemp	42,500	8,000
Jonathan Punter	42,500	–
Peter Warry	73,949 <sup>2</sup>	9,614

£	Year-ended 30 June 2016	
	Base fees	Additional fees <sup>1</sup>
Paul Bradshaw	70,000	–
Angela Crawford-Ingle	32,500	7,500
Mark Johnson (resigned 11 December 2015) <sup>3</sup>	15,587	–
Robin Minter-Kemp	32,500	7,500
Jonathan Punter	32,500	–
Angus Samuels (resigned 11 December 2015) <sup>3</sup>	16,250	–
Peter Warry	32,500	27,500

- 1 Non-executive additional fees include fees for Board Committee positions.
- 2 Additional base fees for acting Chairman from 13 January 2017.
- 3 Remuneration to the date of resignation.

**Non-Executive Director fee review**

The Non-Executive Directors' fees were reviewed in 2016, and were increased based upon fees for comparable listed companies and following consultation with major shareholders. No fee review has been conducted in the current year.

### Personal shareholding policy

The Company does not have a specific current 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 7 September 2017, 30 June 2017 and 30 June 2016:

Shareholding	7 September and 30 June 2017		30 June 2016	
	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%	2,210,619	2.69%
James Barham	1,095,843	1.33%	1,095,843	1.33%
Kevin Hayes	252,865	0.31%	252,865	0.31%
Angela Crawford-Ingle	13,661	0.02%	13,661	0.02%
Robin Minter-Kemp	25,269	0.03%	25,269	0.03%
Jonathan Punter <sup>1</sup>	–	0.00%	–	0.00%
Peter Warry	13,661	0.02%	13,661	0.02%

1 Jonathan Punter holds a 7.4% interest in PSG. PSG has a 38% interest in the Company.

### External advisers

The Committee received advice from McLagan International Inc. on market conditions and competitive rates of pay. The cost of this advice was £6,250.

### Statement of voting at 2016 general meeting

Resolution	Votes cast	Votes for	Votes against	Votes withheld
To approve the Directors' report on remuneration for the year ended 30 June 2016 as set out in the Annual Report and Accounts 2016.	71,538,913	85.24%	14.76%	0%

### 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 Deferred Equity Plan 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.

Approved and signed on behalf of the Board.

### Robin Minter-Kemp

Chairman, Remuneration Committee

## 2018-2020 DIRECTORS' REMUNERATION POLICY PROPOSAL

### Executive summary

The Remuneration Committee (the 'Committee') of the Board is pleased to propose to shareholders the Directors' remuneration policy effective for the next three years starting from the year ended 30 June 2018. The proposed policy is subject to a binding vote by shareholders at the forthcoming Annual General Meeting of the Group on 8 December 2018.

The Committee developed the proposed policy, seeking independent advice during the process from Willis Towers Watson. The Committee has also engaged with our significant shareholders during the design phase of the policy and their feedback has been incorporated into the proposed policy. We have also engaged with the independent governance organisations who will publish their reports to the market in due course.

The proposed remuneration policy for executive directors has four elements as follows: Base salary and benefits; Annual cash bonus; Long Term Incentive Award; and Performance Fee Bonus.

The Group provides a broader range of services than a conventional fund manager, and due to this significant difference the peer company comparison that might apply is of limited use. In setting the policy the Committee has therefore considered the needs of the business and the objectives of customers and shareholders from first principles. The policy therefore also reflects the complexity of the business including the wide range of activities undertaken as well as the role of individual directors in delivering shareholder value and customer outcomes.

In some aspects the policy is intentionally bespoke, for example the LTIP design includes a pre-grant performance consideration and the actual vesting conditions that are intended to apply will be set only as and when the needs of the business are clear at around the time of grant in order to reflect the fast expanding and changing profile of the Group's activities, in addition an EPS growth condition will also apply.

Regarding the Performance Fee Bonus, this applies only when outperformance has triggered the payment of a fee to the Group and this is an important indicator of meeting customer needs and delivery of shareholder value. The committee believes that there should be a strong alignment of interest between Executive Directors that contribute directly to the delivery of performance that earns performance fees for the Group and the net performance fees available to shareholders through the Group's dividend policy.

We believe that the new policy represents the appropriate remuneration regime for both the Group and the Executive Directors, recognising the culture of the business, the current position of the Group and its strategic directions. The remuneration outcomes proposed represent a fair balance between the interests of shareholders, clients, Executive Directors and employees.

The proposed policy has the full support of the Independent Directors, who have indicated that they will vote in favour of the new policy, and we encourage our shareholders to likewise vote to approve the new policy.

### Remuneration objectives

The first objective of the Committee in establishing the new remuneration policy is to ensure the alignment of the interests of the Executive Directors with the outcomes expected by our clients. As a client outcome led business, and consistent with the expectations of our regulators, this alignment of outcomes is critical. We consider that if clients are well served, the expected outcomes for shareholders are likewise well served.

The second objective is to ensure that the remuneration outcomes are aligned to the interests of shareholders in the annual implementation of the policy.

In implementing the current policy, in cases where the actions of the Executive Directors have demonstrated a clear alignment with the best interests of clients but have nevertheless resulted in a negative outcome for shareholders, the impact on shareholders has been reflected in Executive Directors' remuneration. The clearest demonstration of this was in 2015 where, in the interests of clients, the Group returned to clients the assets managed by the global thematic team and closed the division. The consequence of this action was a reduction in revenues and net income for shareholders, therefore the Executive Directors were paid no variable remuneration or performance shares in that year.

### Our business model and what differentiates us

In developing the Committee's proposed remuneration policy, we recognise that the Group has a differentiated business model from its peers and also is at an earlier stage in its development than its public peers. Over the last three years, the Group has transitioned from a merged private company to a premium listed PLC, while simultaneously continuing the growth path that shareholders expect.

The Group has a total of just over 200 employees and we are therefore smaller than the majority of our public asset management peers. Accordingly our Executive Directors and the CEO in particular, are directly engaged in the day-to-day client engagement and investment management decision processes. Our remuneration policy reflects this dynamic.

The Committee is mindful of the need to implement a remuneration policy appropriate to attract and retain individuals who are confident in their ability to add value in a market against a wide range of both listed and unlisted competitors; many of which are at similar stages of their development but are not listed companies. This is particularly true for those who have a strong investment skillset such as Mike Faulkner, or individuals who operate as head of a business unit but who are not Executive Directors.

While we are mindful of the approaches taken by our asset management peers, we believe that our proposed remuneration policy is aligned to the specific requirements in our business and is reflective of the stage of our development. Therefore our approach to remuneration will be differentiated based on the facts and circumstances of our particular business.

### Our stakeholders

In a similar manner we have been mindful of the guidance given by governance advisory bodies and have sought to understand their views. We recognise that there is a desire for consistency across the financial services industry with regards to remuneration policies. Where we consider that the Group's specific circumstances differ significantly from our peers we have departed from the more standard approach in order to align Executive Directors' remuneration both with the outcomes expected from our clients, and with those of our shareholders, in order to incentivise outstanding performance outcomes.

Accordingly we have formally incorporated into the new remuneration policy a remuneration cap on total pay expense to all staff and partners including Executive Directors in any year and an aggregate cap on each element of Executive Remuneration. Again, we believe this is an important differentiator in our policy, and helps provide comfort regarding the overall balance between the remuneration to employees and Executive Directors for their demonstrated performance and shareholder return for capital.

### Our key remuneration outcomes

We are now three years on from the IPO and the Committee has undertaken a full review of Executive Director remuneration in light of the progress made by the Group and the strategic objectives the Board has for the Group over the next three years. Elements of this strategy relate to both organic growth and acquisitive growth and this has been taken into account in setting the Group's proposed remuneration policy, particularly with regard to long-term incentives.

The Committee defined the following key outcomes that are required from the proposed remuneration policy:

- Strong alignment between remuneration outcomes and the delivery of client desired outcomes.
- A transparent approach to sharing the economics of the Group between employees including the Executive Directors, and shareholders.
- Ensuring that higher levels of remuneration are only delivered for exceptional long-term growth and performance.
- A clear understanding of expectations with regard to performance outcomes and measurement that translates the Group's strategy into financial and non-financial outcomes that measure progress in the current period, medium and long term.
- A clear understanding by our employees and the Executive Directors of their remuneration outcomes, including their expectations regarding the components of remuneration and how this is linked to their individual, divisional and the Group's performance.
- An alignment to effective risk management and personal and collective conduct through malus adjustments and retention periods, including compliance with the FCA's Remuneration Codes and UCITS V, where applicable.

The Committee has considered the environmental, social and governance implications of the remuneration policy and is satisfied that there is no element which would incentivise inappropriate conduct or behaviour.

### Changes from the current remuneration policy

In summary the main changes from the current remuneration policy are:

- The Group's total remuneration and profit share each year will be formally capped at a maximum of 54% of net management and advisory fees, plus 50% of performance fees.
- An increase in maximum annual cash bonus opportunity from 200% to 300% of salary to reward exceptional performance, subject at all times to a requirement to make at least a 50% of awards as long-term incentive plan (LTIP) awards with forward-looking financial performance targets.
- Changing the performance metrics for LTIP awards from total shareholder return to financial metrics linked to the growth of the underlying business economics, for example adjusted underlying EPS.
- Grants awarded to Executive Directors in 2014 under the Executive Performance Share Plan (EPSP) will continue in accordance with the performance terms of the EPSP and are due to end in 2018. A new EPSP will not be established for Executive Directors. Long term incentive awards made to Executive Directors will be made under the existing plans (subject to shareholder approval for the participation of Executive Director in the Deferred Equity Plan).
- We believe that good client investment outcomes are a key driver of client satisfaction and shareholder value creation, both in maintaining and growing existing client relationships and attracting new clients. We are therefore proposing that Executive Directors that have contributed to the generation of investment performance will be eligible to receive remuneration which more explicitly relates to the generation of performance fees. The total performance fee remuneration that can be awarded to the Executive Directors will be subject to a cap of £8m along with the percentage cap above. In addition individual limits on the amount and the percentage of performance fee remuneration will be applied to each Executive Director. Awards will be subject to significant levels of deferral into shares and/or fund units.

With regards to the maximum annual cash bonus opportunity, the previous remuneration policy provided that Executive Directors were eligible to receive up to 200% of their base salary as a discretionary cash bonus based on the progress achieved against 'desired outcomes'. The maximum cash bonus opportunity has been increased to 300% of base salary in the new policy to reflect the concept of 'exceptional outperformance'.

The Committee's evaluation of expected performance aligns to the successful delivery of the Board's annual budget across all KPIs as well as other specific objectives and equates to a level of 100% of fixed base salary. Above expectation performance aligns to outperformance against the Board's budget and equates to a level of 200% of fixed base salary. The Committee's expectation is that an award of above 200% of fixed base salary is, by its nature, rare and would only be awarded by the Committee for exceptional outperformance both in achieving sustainable and accelerated outcomes in the current period aligned to the early achievement of objectives in the Board's three year strategic plan.

In the year ended 2017 based on the clear demonstration of actual outcomes above the desired level the Executive Directors were awarded a cash variable remuneration at the 200% level. The financial year ended 2017 is the only year since the IPO that any of the Executive Directors have received an award at this level. In 2015 all the Executive Directors voluntarily elected no cash bonus remuneration and in 2016 only two Executive Directors were awarded cash bonuses which were set at the 120% and 124% level. The manner in which cash bonuses have historically been awarded gives a strong indication of our alignment to our shareholder's interests and evidences the Committee's commitment to appropriate pay.

In deciding not to repeat the EPSP in the new remuneration policy, and to introduce performance fee remuneration for Executive Directors, the Committee reviewed the overall economics of the two remuneration approaches to ensure that the maximum award levels produced similar financial outcomes for our shareholders. For the full vesting of both the EPSP A and B shares a Total Shareholder Return of 30% compounded over 4 years is required. Including dividends this would require that the share price at vesting is approximately £4.30 per share. This equates to an award value to the Executive Directors, as a group, of £31m, equivalent to £8m per year over the 4-year performance period. Accordingly we set the maximum that the Executive Directors, as a group, could be awarded from Performance fee remuneration at the same level to maintain the same financial outcome for shareholders.

#### Proposed remuneration policy

In summary the following are the key outcomes of the proposed remuneration policy:

- Shareholder outcomes  
To maintain a balance of outcomes between shareholders and employees, including the Executive Directors, the Group's total remuneration each year will be capped at the maximum aggregate of 54% of net management and advisory fees, plus 50% of performance fees. In the event that an acquisition is undertaken by the Group the Committee has discretion to make adjustments on a temporary basis to the remuneration ratio in order to facilitate integration.
- Fixed remuneration and benefits  
Executive Director base salaries are to be reviewed annually by the Committee and set at a suitably competitive level. The maximum annual increase in base salary of each Executive Director is capped at the weighted average employee salary increase in that year, except in the case of a change in role.
- Variable remuneration  
All Executive Directors will be eligible for annual variable remuneration comprising:

(a) up to a maximum of 300% of fixed base salary in cash in order to reward exceptional performance,

plus

(b) up to a maximum of 400% of fixed base salary in the form of long-term incentive awards under the Group's existing deferral plans.

The total annual variable remuneration of Executive Directors will be subject to at least 50% deferral into long-term incentive awards with performance metrics linked to shareholder outcomes.

Long-term incentive awards will be in the form of the Group's shares or, where regulation requires (i.e. UCITS V) or where the Committee considers it appropriate, deferred into other instruments. Long-term incentive awards made to Executive Directors will be made under the existing plans (subject to shareholder approval for the participation of Executive Directors in the Deferred Equity Plan). Long-term incentive awards in the Group's shares may proportionally vest based upon a combination of metrics including adjusted underlying EPS growth measured over the three-year vesting period. The Committee will determine when performance conditions shall be applied to long-term incentive awards. Performance conditions may not be applied when the award is a deferral of variable remuneration under the UCITS V or a deferral of a cash bonus. Awards can be made under the deferral arrangements relating to the deferral of bonuses that are yet to be paid as well as for bonuses for the previous financial year which have been withheld in accordance with UCITS V. Vested awards will be subject to a two-year post-vesting hold period and malus adjustments.

- Performance Fee Remuneration  
The maximum level of total remuneration and profit share applicable to performance fees will be capped at 50% of performance fees in a year. Executive Directors will, as described above, be eligible to share more explicitly in the remuneration relating to performance fees subject to satisfaction of all appropriate good conduct criteria. This will be achieved through the introduction of the Performance Fee Remuneration for Executive Directors whereby Executive Directors that have contributed to the generation of investment performance can be allocated Performance Fee Remuneration. The remuneration will be subject to a cap on the amount and the percentage which varies by individual Executive Director.

Up to 40% of any Performance Fee Remuneration can be paid in cash in the year the performance fees are earned by the Group. A minimum of 60% of the Performance Fee Remuneration will be subject to deferral into the Group's shares and/or fund units which will vest over three years and will be subject to a malus provision.

### Policy illustration

The following chart illustrates the application of the remuneration components under the new policy reflecting the maximum possible remuneration based on performance outcomes:



1 Base includes salary, fees, benefits and pension & performance measures relating to a one year period.

2 Performance measures relating to a one year period.

3 Long Term Incentive Awards. Performance measures relating to greater than one year period.

As noted earlier the increase in the maximum possible remuneration includes both the effect of increasing the maximum cash bonus award to 300% of salary and the addition of Performance Fee Remuneration to replace the maximum remuneration under the EPSP which is not being replaced in the proposed policy.

The maximum remuneration outcomes for Mike Faulkner, the Group's CEO have increased from both the change in cash bonus from 200% to 300%, and the inclusion of Performance Fee Remuneration. Given the specific nature of our client engagement processes and the size of our business, a significant part of Mike's responsibilities include being directly involved in the generation of performance fees through investment ideas, strategy generation, development and sales. The Committee therefore considers it appropriate that were these investments decisions and strategies to result in significant performance fees to the Group, Mike (and the other Executive Directors where they have also contributed) can be awarded remuneration specifically associated with this activity. The maximum level of performance fee remuneration represents exceptional performance which will be directly linked to the Group receiving significant performance fees in that year.

Continued

The maximum level of total performance fee remuneration that can be awarded to employees and partners, including the Executive Directors is capped under the proposed policy at 50% in any year. This provides clear alignment with shareholders as historically the net performance fee income (performance fees less performance fee related remuneration and taxes) have been fully distributed to shareholders each year.

In addition, any Performance Fee Remuneration awarded to the Executive Directors will be subject to at least 60% deferral in the Group's shares or managed funds, vesting over a 3 year period and will be subject to a malus provision.

#### Remuneration policy

This table sets out the components of the proposed remuneration policy for Executive Directors. The proposed policy will be effective for the 2017/2018 financial year.

	Component	Purpose	Application to Executive Directors
Group remuneration capping	To ensure that overall remuneration reflects an appropriate sharing of reward between all employees including Executive Directors and shareholders		<p>A key part of the remuneration policy, a cap on the overall remuneration ratio in line with current levels gives shareholders comfort that they will enjoy at least the same share of the profits of the business as they do currently.</p> <p>The Group's overall remuneration and profit share expense, reflecting fixed and variable elements for all staff and partners, shall be capped at an aggregate of:</p> <ul style="list-style-type: none"> <li>– 54% of net management and advisory fees, plus</li> <li>– 50% of performance fees</li> </ul> <p>In the event that an acquisition is undertaken by the Group the Committee has discretion to make adjustments on a temporary basis to the remuneration ratio in order to facilitate integration. These are the maximums, and the Committee expects the business to operate below them in a typical year.</p>
Fixed pay	Base salary	To help recruit and retain talent	<p>Base salaries represent fixed contractual payments. To maintain financial flexibility in our overall economics, salaries are set at a suitably competitive level based on peer group analysis.</p> <p>Like other employees, Executive Directors' salaries are reviewed annually; however they will not be increased by more than the weighted average increase in employee salaries over the period since the last change in Executive Director salary, except to reflect changes in role.</p>
	Benefits, pension, save-as-you-earn	To help recruit and retain talent and promote health and wellbeing	Executive Directors have access to the same benefits as all Group employees, including save-as-you-earn, defined contribution pensions (or cash in lieu of pension) with a Group contribution of up to 10%, and health and other insurances.



Component	Purpose	Application to Executive Directors
Variable pay	To provide motivation and reward to individuals for achievement of objectives aligned with the Group's strategy. These objectives may be in-year, or longer in duration.	<p>Variable pay shall be in two forms, the details of which are below:</p> <ol style="list-style-type: none"> <li>1. Cash Variable Remuneration – up to 300% base salary, plus</li> <li>2. Long Term Incentive Awards – up to 400% base salary</li> </ol> <p>In setting the overall remuneration for the year, the ratio of Long Term Incentive Awards to Cash Variable Remuneration shall be at least 1:1.</p>
Cash Variable Remuneration		<p>Executive Directors will be eligible for maximum Cash Variable Remuneration which is capped at a multiple of 300% of base salary.</p> <p>The Cash Variable Remuneration will be assessed by the Committee and will be linked to stated performance objectives aligned to the annual delivery of the Group's strategy. These will be a combination of individual and Group-wide performance objectives, with financial performance measures the key factors. These will include: Group KPIs; specific divisional performance; and Adjusted underlying EPS. These measures will determine the outcomes ranging from minimum to exceptional.</p> <p>Consideration of culture and conduct will also be included to reward high quality conduct which is consistent with the Group's culture.</p> <p>The Committee's evaluation of expected performance aligns to the successful delivery of the Board's annual budget across all KPIs as well as other specific objectives and equates to a level of 100% of fixed base salary. Above expectation performance aligns to outperformance against the Board's budget and equates to a level of 200% of fixed base salary. The Committee's expectation is that an award of above 200% of fixed base salary is, by its nature, rare and would only be awarded by the Committee for exceptional outperformance both in achieving sustainable and accelerated outcomes in the current period aligned to the early achievement of objectives in the Board's three year strategic plan.</p> <p>By mandating a ratio of Long Term Incentive Awards to Cash Variable Remuneration of at least 1:1, at least 50% of the Executive Directors remuneration each year will be in the form of a Long Term Incentive award structure which has more onerous performance conditions than a simple deferral.</p>

Continued

	Component	Purpose	Application to Executive Directors
Variable pay (continued)	Long Term Incentive Awards	To incentivise delivery of long-term performance and strategic objectives	<p>Executive Directors can be awarded Long Term Incentive Awards which are capped at a maximum of 400% of base salary.</p> <p>Typical annual grants will be between 100% and 200% of base salary. Awards above 200% and up to 400% of base salary can be awarded subject to pre-grant performance conditions, measured as part of the year-end appraisal process along with Cash Variable Remuneration.</p> <p>Awards shall be made in Group shares or fund units, or a combination of the two. The Committee will decide the most appropriate mix each year depending on the desired outcomes for the business.</p> <p>The performance conditions will be measured over a three-year period, chosen to align with the typical strategic timeline of the Group. Following vesting, the awards shall be subject to a further two year holding period.</p> <p>Vesting will be based on maintaining a minimum level of aggregate Group performance, as measured by adjusted underlying EPS growth. This measure is chosen as it represents the core business and is not subject to volatility resulting from performance fees. These same awards may contain additional criteria requiring the achievement of specific performance targets aligned to the long-term strategic objectives set by the Board.</p> <p>The specific vesting criteria which will be set by the Committee will be clear, measurable and objective and will be included in the annual report on remuneration in the year they are set. Progress against them will be reported in each annual report on remuneration during the vesting period.</p> <p>A maximum of 75% of base salary will vest for threshold performance.</p> <p>Awards will be subject to requirements of continued employment throughout the vesting period, but not the holding period.</p> <p>Deferrals shall be subject to malus during the vesting period and holding period, as detailed below.</p> <p>Executives shall be entitled to dividends or income distributions during the holding period.</p>

Component	Purpose	Application to Executive Directors												
Performance Fee Remuneration	To reward specific exceptional returns to shareholders resulting from performance fees	<p>Subject at all times to the Group remuneration cap detailed above, the Executive Directors can participate in the performance fee remuneration pool. Participation will be qualified based on objectives relating to: the direct contribution to investment idea generation and innovation, direct portfolio management, risk, capacity and execution management and the development of net new performance fee business. The award is subject to a limit on the percentage of performance fees and the total amount Executive Directors can receive each year:</p> <table border="1"> <thead> <tr> <th>Individual</th> <th>Max. % of performance fees</th> <th>Max. £ amount per annum</th> <th>Basis for performance evaluation</th> </tr> </thead> <tbody> <tr> <td>Mike Faulkner</td> <td>20%</td> <td>£5m</td> <td rowspan="2">Specific objectives relating to: the direct contribution to investment idea generation and innovation, direct portfolio management, risk, capacity and execution management and the development of net new performance fee business</td> </tr> <tr> <td>Other Executive Directors, individually</td> <td>10%</td> <td>£1m</td> </tr> </tbody> </table> <p>Up to 40% of the Performance Fee Remuneration can be paid in cash in the year the performance fees are earned by the Group. A minimum of 60% of the Performance Fee Remuneration will be deferred in a combination of Group shares and/or fund units for a period of three years, subject to malus which includes significant deviations from client mandate expectations, failures in risk management and conduct issues. Recipients will be entitled to dividends or income distributions on a reinvestment basis.</p>		Individual	Max. % of performance fees	Max. £ amount per annum	Basis for performance evaluation	Mike Faulkner	20%	£5m	Specific objectives relating to: the direct contribution to investment idea generation and innovation, direct portfolio management, risk, capacity and execution management and the development of net new performance fee business	Other Executive Directors, individually	10%	£1m
Individual	Max. % of performance fees	Max. £ amount per annum	Basis for performance evaluation											
Mike Faulkner	20%	£5m	Specific objectives relating to: the direct contribution to investment idea generation and innovation, direct portfolio management, risk, capacity and execution management and the development of net new performance fee business											
Other Executive Directors, individually	10%	£1m												
Malus and clawback	To ensure that variable remuneration reflects longer-term risk outcomes	<p>Malus will apply to all awards during the performance assessment and award setting process, and both the vesting and holding periods. This allows the Committee at its sole discretion to reduce the levels of award due to the individual to reflect risk outcomes including: deviations from client mandate expectations, failures in risk management and conduct issues, personal misconduct, professional conduct failings in a regulatory context, or risk management failings with regard to clients; material mis-statement of financial results; and significant downturn in Group or relevant divisional results.</p> <p>Clawback will apply to cash variable remuneration and performance fee remuneration for a period of 12 months in case of material financial mis-statement or serious personal misconduct by the individual.</p>												
Personal shareholding	To align Executive Directors with shareholders	<p>Executive Directors are required to acquire and retain Group shares equivalent to at least 200% of base salary. The Directors shall have five years from taking office to acquire the shares. Shares which have vested under remuneration plans but which are subject to holding periods shall count for the purpose of determining this test.</p>												

Continued

**Total remuneration cap**

A key governance metric to demonstrate the alignment between our employees and Executive Directors and our shareholders is the proposed cap on total remuneration as a percentage of both management and advisory fees and performance fees. The cap will be set in the new policy and therefore any motion to exceed the cap will require shareholder approval as a binding vote.

The following table illustrates the previous actual remuneration ratios for net management and advisory revenues and performance fee revenues. We propose to set the ratio in the policy at: 54% of net management and advisory fees plus 50% of the performance fees.

	2014 (6m)	2015	2016	2017	Maximum Policy Level
Net management fee and advisory fees	17,525	46,654	45,669	<b>55,893</b>	
Remuneration ratio	n/a <sup>1</sup>	52%	54%	<b>52%</b>	54%
Performance fees	2,350	5,879	1,526	<b>12,549</b>	
Remuneration ratio	n/a <sup>1</sup>	42%	50%	<b>50%</b>	50%
Total revenue	20,162	52,533	47,195	<b>68,442</b>	
Total remuneration ratio	54%	51%	54%	<b>52%</b>	

<sup>1</sup> Remuneration was set at an overall level in 2014.

The Board's stated strategy is to improve the overall margin of the business through revenue growth. This will be achieved over time by the reduction in the remuneration and the administrative expenses ratios to revenue. Over the last three years the remuneration ratio has been reduced and we expect this to be maintained over the next 3 years in the range of 50-54% for net management and advisory fees and 50% of performance fees. In setting the ratio at the 54%/50% ratio the Committee recognises that there may be a need for temporary flexibility, for example in order to recruit new investment or consultant teams. Likewise, as stated earlier, the expectation is that in years of significant performance fees the performance fee ratio will be below 50%.

The net management fees and performance fees are defined in our financial statements and subject to audit. Remuneration expense is defined as fixed based salaries, partner drawings, benefits, cash variable remuneration and profit share and the amortisation of performance share and fund awards, recruiting incentives, and payroll taxes. The financial statement effect of the EPSP, including payroll taxes are excluded from the definition of remuneration expense for the purposes of applying the remuneration cap. Remuneration expense is defined in our financial statements and is subject to annual audit.

**Executive Performance Share Plan (EPSP)**

As a newly listed company, the remuneration policy set in 2014 included the grant of the Executive Performance Share Plans (EPSP) to incentivise the Executive Directors to deliver growth in the client business and to maximise the return to shareholders as measured in terms of share price performance and dividends. The EPSP was designed to provide a reward to the Executive Directors only in the situation where the actual total shareholder return was above 12% compounded over four years. Full vesting of the EPSP was based on achieving actual total shareholder returns of 24% for the A shares and 30% for the B shares, respectively compounded over the four-year period from the IPO date. As these hurdles were considered appropriately challenging the EPSP was treated as dilutive to shareholders.

The Committee also confirms that as the EPSP was issued prior to the IPO it is not included in the calculation of potentially dilutive awards as set out in ABI guidance.

The performance measurement period for the EPSP will end on 30 June 2018. The Committee is proposing to shareholders that this plan will not be repeated, however that the current outstanding awards will continue in accordance with the plan documentation.

**Performance fee remuneration**

We believe that good client investment outcomes are a key driver to client satisfaction and shareholder value creation, both in maintaining and growing existing client relationships and attracting new clients. As an investment management business our ability to innovate and develop investment intellectual capital in order to achieve long-run investment outperformance is an essential element of our continued success.

Linked to investment outperformance generated for clients is the ability of the Group to generate performance fees. The Executive Directors, in particular Mike Faulkner, have significant input into the generation of performance fees through investment ideas, strategy generation, development and sales. The Committee proposes that within the overall performance fee remuneration, it is appropriate therefore for the Executive Directors to be eligible for remuneration to reflect their role during the year in generating such fees.

We believe that this directly aligns the Executive Directors including Mike Faulkner as an investment focused CEO, with the interests of shareholders in delivering shareholder returns.

For shareholders a significant proportion of net performance fees (performance fees less performance fee remuneration and taxes) are returned to shareholders. To date 100% of the net performance fee profits have been returned to shareholders as dividends. As the performance fee remuneration is capped at 50% of performance fees the direct financial outcome to shareholders will be unchanged.

Annually, specific objectives can be established, where relevant, for Executive Directors by the Committee with the assistance from the Board's other subcommittees: the Global Investment Committee, the Client Engagement Committee and the Audit and Risk Committee. These objectives could relate to the development of a new investment philosophy and process, research and risk management strategies or execution, capacity and distribution strategies.

With regards to the Executive Directors the award of performance fee remuneration is subject to a cap of both the amount and the percentage of total performance fees. We believe that this is an important governance limitation.

Individual	Max. % of performance fees	Max. £ amount	Basis for evaluation
Mike Faulkner	20%	£5m	Specific objectives relating to: the direct contribution to investment idea generation and innovation, direct portfolio management, risk, capacity and execution management and the development of net new performance fee business
Other Executive Directors, individually	10%	£1m	

In our client engagement we are clear as to how this outperformance will be measured and delivered, including clear risk parameters which are monitored independently from those managing the assets. Our approach to client engagement and conduct mitigates the conflicts of interest that can arise in generating performance fees and in particular situations where remuneration is directly linked to underlying investment performance.

In order to ensure longer-term alignment and adherence to UCITS V where applicable, 60% of performance fee remuneration each year will be deferred into the Group's shares and/or fund units for a period of 3 years, subject to malus.

In the determination of vesting and the operation of malus provisions the Committee will be keenly focused on monitoring conduct, not only with regard to our clients but also with regard to our participation in the broader financial markets. The Committee's consideration of malus will include: deviations from client mandate expectations, failure in risk and conduct, personal misconduct, professional conduct failings in a regulatory context, or risk management failings with regard to clients, the Group, as well as dealings in the broader financial markets.

In years in which performance fees are significant and the awards to relevant employees and the Executive Directors are at the respective cap it is the Board's expectation that the remuneration accrual rate applied to performance fees will be reduced below 50%, thereby increasing the distributions to shareholders.

#### Measuring performance

The Committee defined the following key outcomes that are required from the proposed remuneration policy:

- Ensuring that higher levels of remuneration are only delivered for exceptional long-term growth and performance;
- A clear understanding of expectations with regards to performance outcomes and measurement that translates the Group's strategy into financial and non-financial outcomes that measure progress in the current period, medium and long term; and
- A clear understanding by our employees and the Executive Directors of their remuneration outcomes, including their expectations regarding the components of remuneration and how this is linked to their individual and divisional performance and the Group's performance.

Prior to the start of the financial year the Board undertakes a strategic review of the business and reviews submissions from each business area regarding their strategic ambitions for the forthcoming year and their trajectory towards a three-year strategic plan. These plans form the basis of the Group's annual budget and three-year strategic plan. The budget is set on the basis of stretch objectives so that it is sufficiently challenging for the Executive Directors and Senior Management. The annual budget sets the baseline of the key performance indicators, both financial and non-financial.

#### Variable Cash Remuneration

These budget key performance indicators form the basis for the performance hurdles for the Executive Directors' Variable Cash Awards which will be set by the Committee annually. The Committee views that the achievement of the annual budget represents the level of 'expected' performance. For each KPI the Board sets a range which gives a clear indication of 'above expectation' and 'exceptional' performance.

In evaluating the Executive Directors there is an element of their performance that is the result of their collective activity and therefore at the Group level the achievement of net management fee and advisory revenues and underlying pre-tax margin are elements that we hold the Executive Directors responsible for as a collective team. Individual divisional objectives, for example sales targets, regretted attrition and non-financial metrics such as the measurement of client satisfaction, and the development and training of staff are more aligned to the individual Executive Directors. The various metrics are therefore weighed by the Committee for each Executive Director.

In order to exclude the effect of performance fees, which could give rise to performance fee remuneration, Variable Cash Remuneration performance objectives will be based on the underlying management and advisory earnings metrics. These will include metrics linked to revenues, AUM, and adjusted underlying margins.

While other financial metrics may also be used, the primary linkage to shareholder returns is the delivery of revenue and the control of both remuneration and administrative expenses. Other non-financial metrics may also be used including those which measure client satisfaction, and staff development and succession.

Strategically the business has grown organically over the last three years. Over the next three-year period adjusted underlying EPS will be used as a performance metric to reflect the potential use of the capital base for the purposes of an acquisition. The Committee considers this a more appropriate metric than those based on return on equity.

Continued

In terms of Variable Cash Remuneration the following are used by the Committee to determine each Executive's performance and Variable Cash Remuneration:

Expected performance aligns to the successful delivery of the Board's annual budget across all KPIs and equates to a level of 100% of fixed base salary.

'Above expectation' performance aligns to outperformance against the Board's budget and equates to a level of 200% of fixed base salary. The Committee's expectation in that an award of above 200% of fixed base salary is, by its nature, rare and would only be awarded by the Committee for exceptional outperformance both in achieving sustainable and accelerated outcomes in the current period aligned to the early achievement of objectives in the Board's three year strategic plan.

The Committee will receive quarterly reporting to provide ongoing feedback on progress with a final determination by the Committee at the end of the year.

The Committee will retrospectively disclose the financial targets and the evaluation of actual performance against those targets for each Executive Director. Detailed commentary will be given on the Committee's assessment of performance achieved against the non-financial objectives. Specific targets will not be disclosed in detail in advance for reasons of commercial sensitivity, but some high level disclosure of the types of objectives will be given. In the Chief Executive's review (page 8) the strategy of the Group for the next 3 years has been outlined, including specific growth metrics to be achieved. These strategic objectives will form the basis for the targets for 2017/2018 and will be reviewed and updated as required in our reporting to shareholders in the interim and annual reports.

#### Long Term Incentive Awards

By mandating a ratio of Long Term Incentive Awards to Cash Variable Remuneration of at least 1:1, at least 50% of the Executive Directors' remuneration will be deferred each year in a Long Term Incentive Award structure which has more onerous performance conditions than a simple deferral.

Executive Directors can be awarded grants under the Group's Deferred Equity Plan which provides for awards of shares, fund units or other securities. Typical annual grants will be 100 – 200% of fixed base salary, but up to 400% can be awarded subject to pre-grant performance conditions, measured as part of the year-end appraisal process along with Variable Cash Remuneration.

Long Term Incentive Awards vest over a period of three years to align to the Group's strategic planning horizon. The performance conditions will be the financial and non-financial KPI growth metrics rather than performance metrics to be achieved in a single year.

Awards can be made in Group shares or fund units, or a combination of the two. The Committee will decide the most appropriate mix each year depending on the desired performance outcomes for the business.

Vesting will be based on maintaining a minimum level of aggregate Group performance, as measured by adjusted underlying EPS (Earnings Per Share) growth. These same awards may contain additional criteria requiring the achievement of specific performance targets aligned to the long-term strategic objectives set by the Board as part of its strategic planning process.

The specific vesting criteria which are set by the Committee will be clear, measurable and objective and will be included in the annual report on remuneration in the year they are set. Progress against them will be reported in each annual report on remuneration during the vesting period.

#### Risk and conduct

The Committee takes risk and conduct issues very seriously, and has incorporated this into the policy to ensure that appropriate remuneration is paid to individuals who exhibit the Group's values, resulting in positive risk and conduct outcomes. Individuals who are directly accountable for risk and conduct issues which arise should have reductions in their remuneration. As a result, all variable remuneration awards are subject to malus, which allows the Committee to:

- Cancel any award before or during the vesting or hold period;
- Reduce the amount of any award before it is made;
- Reduce the amount of any award during the vesting period;
- Reduce the amount of any award during the holding or deferral period; and
- Impose further conditions on any award in certain circumstances including where there has been misconduct, exposure to risks, breach of policy or where the Committee is reasonably of the opinion that the actions of the individual has or is likely to cause injury to the business.

Additionally, the Committee will not only measure the absolute achievement of objectives, but will also apply judgment as to the manner in which the objectives were achieved.

Finally, the up-front cash elements of variable remuneration, being the cash annual bonus and the performance fee bonus shall be subject to a 12 month clawback provision, in case of material mis-statement of financial results or serious personal misconduct by the individual.

#### Remuneration of new Executive Directors

Upon appointment of new Executive Directors, the Committee aims to pay such Directors appropriate levels of remuneration to achieve the objectives of retention and motivation, in line with the policy detailed above.

Base salaries will typically be set at similar levels to those already in place, although they may be set lower to reflect experience, in which case they may rise more quickly over time. Benefits and bonuses will be applied in a consistent manner with the policy as it applies to other Executive Directors.

New Executive Directors will be given objectives for the remainder of the year in which they are appointed, and will be appraised on their performance and be eligible for variable remuneration in a similar way as existing Executive Directors.

The Group may pay reasonable legal costs for a new Executive Director to obtain independent legal advice in relation to their appointment.

Where a new Executive Director forfeits remuneration as a result of leaving their previous role, the Committee may make one-off awards on their appointment in order to mitigate their loss. In all cases any buy-out awards will be granted on a like-for-like basis, taking into account the nature, time horizon and performance requirements of the forfeited remuneration and will be subject to malus at least as onerous as the awards being replaced.

#### **Non-Executive remuneration**

The Group periodically reviews the fees payable to Non-Executive Directors in respect of their roles on the Board and as committee chairs. This review includes the use of benchmarking data to determine appropriate fee levels. The Committee will make changes to remuneration as appropriate, with the last change being an increase, which was effective from 1 July 2016. The Non-Executive Directors will be entitled to additional fees in exceptional circumstances if determined appropriate by the Chairman in consultation with the CEO.

#### **Directors' service contracts, letters of appointment and termination arrangements**

All Executive Directors have service agreements under which, other than by termination in accordance with the terms of these agreements, employment continues indefinitely.

There are no special provisions for notice or compensation in the event of a change of control of the Group. It is the Group's policy that the Group may terminate the Executive Directors' service agreements by giving no less than 12 months' notice.

As an alternative, for Executive Directors the Group may at its discretion pay in lieu of that notice. Payment in lieu of notice may be made in equal monthly instalments from the date of termination to the end of any unexpired notice period. Payment in lieu of notice in instalments may also be subject to mitigation and reduced taking into account earnings from alternative employment.

For Executive Directors, payment in lieu of notice comprises 100% of the annual salary at the date of termination and the annual cost to the Group of providing pension and all other benefits. In limited circumstances, in addition to making a full payment in lieu of notice, the Group may permit an Executive Director to stay employed after the announcement of his or her departure for a limited period to ensure an effective hand-over and/or allow time for a successor to be appointed.

The Group may, depending on the circumstances of the termination, determine that it will not pay the Executive Director in lieu of notice and may instead terminate an Executive Director's contract in breach and make a damages payment, taking into account as appropriate the Director's ability to mitigate his or her loss. The Group may also pay an amount considered to be reasonable by the Committee in respect of fees for legal and tax advice and outplacement support for the departing Executive Director.

On cessation of employment, save as otherwise provided for under the rules of the Group's share plans, Executive Directors' entitlements to any unvested awards lapse automatically. In the case of injury, disability, ill-health or redundancy (as determined by the Committee), change of control, or any other reason that the Committee so decides in its absolute discretion, awards may continue, or vest early.

Awards that are subject to performance conditions not linked to continued employment will stay in force as if the participant had not ceased employment and shall vest on the original vesting date. Awards that are not subject to a performance condition will be released as soon as practicable following cessation of employment.

The number of shares that are released shall be pro-rated for the period of the participant's service in the restricted period (although the Committee may in its absolute discretion waive or vary the pro-rating).

In determining whether and how to exercise its discretion under the Group's share plans, the Committee will have regard to all relevant circumstances distinguishing between different types of leaver, the circumstances at the time the award was originally made, the Executive Director's performance and the circumstances in which the Executive Director left employment.

On cessation of employment, Executive Directors, having been notified of participation in an annual incentive plan for the relevant financial year may, at the Committee's discretion, retain entitlement to a pro-rata annual incentive for their period of service in the financial year prior to their leaving date. Such pay-out will normally be calculated in good faith on the same terms and paid at the same time as for continuing Executive Directors.

Eligibility for allowances and benefits including retirement benefits normally ceases on retirement or on the termination of employment for any other reason.

The rules of the Group's share plans make provision for the treatment of awards in respect of corporate activity, including a change of control of the Group. The Committee would act in accordance with the terms of the awards in these circumstances, which includes terms as to the assessment of performance conditions and time apportionment.

Continued

Details of each individual Executive Director's service agreement are outlined in the table below. Employment agreements for other employees are determined in accordance with local labour law and market practice.

Executive Directors	Title	Appointment Date	Resignation Date	Effective Date of Current Service Agreement	Notice Period	Initial Term
James Barham	Global Head of Distribution	27th March 2014		6th April 2014	12 months	Rolling
Jack Berry	Global Head of Solutions	27th March 2014		27th March 2014	12 months	Rolling
Kevin Hayes	Chief Financial Officer	15th April 2014		27th March 2014	12 months	Rolling
Mike Faulkner	Chief Executive Officer	27th March 2014		27th March 2014	12 months	Rolling

Non-Executive Directors	Title	Appointment Date	Resignation Date	Effective Date of Current Service Agreement	Notice Period	Initial Term
Paul Bradshaw		27th March 2014	12th January 2017	27th March 2014	3 months	3 years
Angela Crawford-Ingle		29th May 2014		29th May 2014	3 months	3 years
Robin Minter-Kemp		12th May 2014		12th May 2014	3 months	3 years
Jonathan Punter		26th June 2014		26th June 2014	3 months	3 years
Peter Warry		1st June 2014		1st June 2014	3 months	3 years

#### Compliance with regulation and legislation

The regulatory and legislative environment is changing rapidly, with implications for remuneration approaches. Whilst all steps are taken at the time of drafting a policy to ensure it is compliant with both the letter and spirit of current requirements, this can change over a three-year cycle. An example of this is the implementation of UCITS V in the current year, which introduces requirements to make deferrals into UCITS fund units, not currently permitted in the Group's current policy.

To avoid these issues in future, the Committee may vary the method and approach to Executive Remuneration in this policy, in order to ensure regulatory and legislative compliance.

#### Statement of consideration of employment conditions elsewhere in the Group

The Group's head of HR is present at all Committee meetings and provides the Committee with reporting on proposed salary levels and variable remuneration awards during the annual remuneration process, and periodically on request. The Committee approves the overall variable remuneration spend each year and performs a detailed review of the remuneration of senior employees outside of the Executive Directors.

This information helps the Committee reach a conclusion on the remuneration policy which they believe is appropriate in light of employee remuneration, and represents a consistent approach throughout the Group.

The Group does not specifically invite employees to comment on the Directors' remuneration policy, but any comments made by employees are taken into account. Several employees from Finance, HR and legal were involved in the consideration of this proposed remuneration policy.

Approved and signed on behalf of the Remuneration Committee.

#### Robin Minter-Kemp

Chairman, Remuneration Committee



## DIRECTORS' REPORT

The Directors present their report incorporating the Corporate Governance statement 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 2017.

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 on pages 36 and 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
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
Robin Minter-Kemp	12 May 2014
Jonathan Punter	30 June 2009
Peter Warry	01 June 2014

\* Paul Bradshaw passed away on 12 January 2017.

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

### Management 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 6.0p per ordinary share of which 2.8p is a special dividend relating to net performance fees (2016: 2.5p). Payment of this dividend is subject to approval by shareholders at the Company's 2017 Annual General Meeting (AGM) and, if approved, will be paid on 15 December 2017 to shareholders on the register at the close of business on 24 November 2017.

### Capital structure and related matters

The capital structure of the Company is detailed on page 94 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 a Director to the Board. 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.

**Substantial shareholdings**

As at 7 September 2017, 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:

	No. of ordinary shares	% of total issued share capital	Direct/indirect
Punter Southall Group Limited	31,302,321	38.13	Direct
Pacific Investments (Sir John Beckwith)	6,103,656	7.43	Indirect
Aberdeen Standard Investments	5,469,988	6.66	Direct
Aviva Investors	5,189,949	6.32	Direct
Unicorn Asset Management	5,085,771	6.20	Direct
Mike Faulkner	3,706,823	4.52	Indirect
Legal & General Investment Management	3,244,611	3.95	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.

**Internal control and risk management systems**

Details of the main internal controls and risk management systems in relation to the financial reporting process can be found in the risk management section on page 26.

**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 Companies Act 2006) are in force for the benefit of Directors and former Directors who held office during the year to 30 June 2017 and up to the signing of the Annual Report. In addition, during the year the Company has maintained liability insurance for Directors.

**Disclosure of information under Listing Rule 9.8.4R**

The sections which apply to the Group are:

4 – Details of long-term incentive schemes, which can be found in the Directors' remuneration report from page 44.

10,11,14 – Details of a contract of significance with a controlling shareholder, details for a contract for provision of services from a controlling shareholder, compliance with the independence provisions under LR 9.2.2AR. Information on the relationship agreement with PSG can be found in the corporate governance report on page 38.

12 – Arrangements under which a shareholder has agreed to waive dividends. The Group's EBT has agreed to waive current and future dividends on the shares it holds pursuant to non-dilutive share awards made to employees of the Group.

The other sections are not applicable to the Group.

**Approval of annual report**

The corporate governance report, the strategic report and the Directors' report were approved by the Board on 29 September 2017.

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 32 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 on pages 96-99 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 8.

**Greenhouse gas emissions**

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

**Annual General Meeting**

The AGM will be held at the Group's registered offices, 11 Strand, London WC2N 5HR on 8 December 2017, starting at 2pm. 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.

This strategic report has been approved and signed on behalf of the Board.

**Peter Warry**  
Acting Chairman  
29 September 2017

## 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 International Financial Reporting Standards (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 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 Director's report, a strategic report and Director's remuneration report which comply with the requirements of the Companies Act 2006.

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 United Kingdom 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 International Financial Reporting Standards (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

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## Opinion

We have audited the financial statements of River and Mercantile Group PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Parent Company statements of financial position, the consolidated and Parent Company statement of statements in equity, the consolidated and Parent Company cash flow statements and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as 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 Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 28 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 32 in the annual report that they 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 Directors' statement set out on page 82 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 32 in the annual report as to how they have assessed the prospects of the Group, 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 Group 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.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Matter	Audit response
<p><b>Revenue recognition</b></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"> <li>– We recalculated a sample of management fees recognised in the year based on AUM/NUM information derived from 'information prepared by the entity' (IPE) and rates prevalent in the respective investment management agreement. We traced the sample through to invoice and subsequent cash receipt, or to debtors and accrued income where relevant. Our sample also included items included within accrued income.</li> <li>– We tested the IPE showing the AUM and NUM driving the management fee calculation, and agreed a sample to custodian statements and Bloomberg valuations.</li> <li>– We tested the IPE showing the AUM and NUM driving the management fee calculation, and agreed a sample to custodian statements and Bloomberg valuations.</li> <li>– 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.</li> <li>– We developed expectations of contracts that would give rise to a performance fee by considering underlying performance against the terms of the contract.</li> <li>– We vouched a sample of advisory fees to invoice and bank receipt, including a sample of accrued advisory fees to subsequent invoice and receipt.</li> <li>– 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.</li> </ul>
<p><b>Impairment of goodwill and intangibles and related disclosures</b></p> <p>Included in the statement of financial position of the Group is goodwill arising on business combinations of £14.9m and intangible assets acquired of £22.3m.</p> <p>The impairment review of goodwill and other intangible assets is considered to be a significant audit risk due to the judgements made in determining whether there is an indication of impairment in respect of the intangible assets. These judgements are made in respect of the underlying assumptions used to calculate the value in use considered in the impairment review of goodwill, and include revenue growth rates, ongoing expenses such as the remuneration ratio, and the discount factor applied to present value the balances.</p>	<p>We responded to this risk by performing the following procedures:</p> <ul style="list-style-type: none"> <li>– 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.</li> <li>– We reviewed the value-in-use model prepared by management in order to calculate the recoverable amount of the relevant cash-generating units ('CGU'). We re-performed the calculation of the recoverable amount. We challenged the key assumptions applied by management, including revenue growth forecasts, ongoing expenses 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.</li> <li>– 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.</li> <li>– We considered the adequacy of disclosures in the financial statements regarding the assessment performed by management in line with the requirements of IAS 38 and IAS 36.</li> </ul>
<p><b>Remuneration incentive schemes and related disclosures</b></p> <p>The Group has a number of 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"> <li>– We recalculated the charge for the year, as well as the deferred tax arising on the performance shares allocated.</li> <li>– We recalculated the fair value of PSP awards in 2017 using a Black-Scholes model.</li> <li>– 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.</li> <li>– 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.</li> <li>– We reviewed the disclosures required by IFRS 2 in respect of the share based payments.</li> </ul>
<p><b>Recognition and disclosure of provisions and contingent liabilities</b></p> <p>As disclosed in note 24 to the financial statements, the Group's subsidiary RAMAM is co-operating with an investigation by the FCA under its concurrent competition powers relating to the participation of RAMAM in two transactions.</p> <p>The need for recognition of any provision or disclosure of contingent liability resulting from the investigation was considered to be an audit risk due to the significant judgement involved in determining the appropriate treatment.</p>	<p>We responded to this risk by performing the following procedures:</p> <ul style="list-style-type: none"> <li>– We reviewed correspondence with the FCA regarding the investigation to understand the basis for the investigation.</li> <li>– We reviewed correspondence and advice received from the Group's legal advisers concerning the investigation and attended meetings at which the Group's legal advisers presented to those charged with governance.</li> <li>– We reviewed and challenged management's assessment of the potential outcome of the investigation and consequent disclosure in the financial statements based on our understanding of the investigation, the outcome of the internal investigation overseen by the Audit and Risk Committee and correspondence and advice received by the Group.</li> <li>– We considered the adequacy of disclosures in the financial statements in the context of the requirements of IAS 37.</li> </ul>

**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 £540,000. This was determined with reference to a benchmark of 5% of profit before tax adjusted for exceptional performance fees. We used this benchmark as we consider this to be one of the principal considerations for members of the company in assessing the financial performance of the group. In the prior year, our materiality was determined with reference to a benchmark of 1% of revenue as the Group was only in its second full year following initial listing. However we consider an adjusted profit before tax benchmark to be a more relevant indicator of financial performance in the longer term.

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

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

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £11,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

**An overview of the scope of our audit**

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.

In order to gain appropriate audit coverage of the risks described above 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 4% 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 & 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 2017 and additional audit procedures were performed to cover the three month period to 30 June 2017, as well as the correct allocation of financial information to the Group's reporting period.

**Other information**

The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information; we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 72 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on page 42 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 38 – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception.

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

### Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 73, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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 objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors to audit the financial statements for the year ending 30 June 2014 and subsequent financial periods. We were reappointed as auditors in respect of the year ended 30 June 2017 by the members of the Company at the Annual General Meeting on 9 December 2016. The period of total uninterrupted engagement is 4 years, covering the years ending 30 June 2014 to 30 June 2017.

We consider that the audit procedures we have undertaken in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatement or other irregularities that would not be considered to be material to the financial statements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Parent Company in the current year and we remain independent of the group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

**Leigh Treacy**  
Senior Statutory Auditor

For and on behalf of  
**BDO LLP**  
Statutory Auditor  
London  
29 September 2017

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

## CONSOLIDATED INCOME STATEMENT

	Note	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>Revenue</b>	3		
Net management fees		45,371	36,764
Net advisory fees		10,522	8,905
Performance fees		12,549	1,526
Other income		–	2
<b>Total revenue</b>		<b>68,442</b>	<b>47,197</b>
Administrative expenses	5	11,562	9,790
Depreciation	8,19	116	103
Amortisation	8,9	4,330	4,330
<b>Total operating expenses</b>		<b>16,008</b>	<b>14,223</b>
<b>Remuneration and benefits</b>			
Fixed remuneration and benefits		20,114	18,423
Variable remuneration		15,201	7,111
<b>Total remuneration and benefits</b>	6	<b>35,315</b>	<b>25,534</b>
EPSP costs	7	1,566	283
<b>Total remuneration and benefits including EPSP</b>		<b>36,881</b>	<b>25,817</b>
<b>Total expenses</b>		<b>52,889</b>	<b>40,040</b>
Gain on disposal of available-for-sale assets	16	793	–
<b>Profit before interest and tax</b>		<b>16,346</b>	<b>7,157</b>
Finance income	10	46	81
Finance expense		(3)	(2)
<b>Profit before tax</b>		<b>16,389</b>	<b>7,236</b>
<b>Tax charge/(credit)</b>	11		
Current tax		4,877	2,411
Deferred tax		(1,844)	(1,040)
<b>Profit for the year attributable to owners of the Parent</b>		<b>13,356</b>	<b>5,865</b>
<b>Earnings per share:</b>	12		
Basic (pence)		16.45	7.15
Diluted (pence)		15.48	7.15

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Profit for the year		13,356	5,865
<b>Items that may be subsequently reclassified to profit or loss:</b>			
Foreign currency translation adjustments		66	320
Change in value of available-for-sale investments	16	445	195
Tax on change in value of available-for-sale investments	11	(90)	(39)
Gain on disposal of available-for-sale investments	16	(793)	–
Tax on gain on disposal of available-for-sale investments	11	159	–
<b>Total comprehensive income for the year attributable to owners of the Parent</b>		<b>13,143</b>	<b>6,341</b>

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 2017 £'000	30 June 2016 £'000
<b>Assets</b>			
Cash and cash equivalents	14	30,759	14,147
Investment management balances	15	62,138	15,448
Available-for-sale investments	16	12	5,350
Fee receivables	17	5,619	6,488
Other receivables	18	14,898	10,766
Deferred tax asset	11	3,421	609
Property, plant and equipment	19	263	377
Intangible assets	9	37,353	41,552
<b>Total assets</b>		<b>154,463</b>	<b>94,737</b>
<b>Liabilities</b>			
Investment management balances	15	60,317	14,655
Current tax liabilities		3,111	1,168
Trade and other payables	20	18,699	9,831
Deferred tax liability	11	3,969	5,347
<b>Total liabilities</b>		<b>86,096</b>	<b>31,001</b>
<b>Net assets</b>		<b>68,367</b>	<b>63,736</b>
<b>Equity</b>			
Share capital	21	246	246
Share premium		14,688	14,688
Other reserves	22	49,340	49,553
Own shares held by EBT	21	(4,766)	(1,283)
Retained earnings		8,859	532
<b>Equity attributable to owners of the Parent</b>		<b>68,367</b>	<b>63,736</b>

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 29 September 2017.

**Mike Faulkner**  
Chief Executive

**Kevin Hayes**  
Chief Financial Officer

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>Cash flow from operating activities</b>			
Profit before interest and tax		16,346	7,157
<b>Adjustments for:</b>			
Amortisation of intangible assets	9	4,330	4,330
Depreciation of property, plant and equipment	19	116	103
Share-based payment expense	7	2,039	768
Gain on disposal of available-for-sale investments		(793)	(4)
<b>Operating cash flow before movement in working capital</b>		<b>22,038</b>	<b>12,354</b>
Increase in operating assets		(49,952)	(9,417)
Increase in operating liabilities		54,533	4,547
<b>Cash generated from operations</b>		<b>26,619</b>	<b>7,484</b>
Tax paid		(2,934)	(2,798)
Disposal of assets held at fair value through profit and loss		–	134
<b>Net cash generated from operations</b>		<b>23,685</b>	<b>4,820</b>
<b>Cash flow from investing activities</b>			
Purchase of intangible assets	9	(79)	–
Purchases of property, plant and equipment	19	(2)	(267)
Interest received		15	41
Investment in available-for-sale investments	16	(10)	–
Proceeds from disposal of available-for-sale investments	16	5,793	–
<b>Net cash generated from/(used) in investing activities</b>		<b>5,717</b>	<b>(226)</b>
<b>Cash flow from financing activities</b>			
Interest paid	10	–	(2)
Dividends paid	13	(9,345)	(9,851)
Purchase of own shares	21	(3,483)	(945)
<b>Net cash used in financing activities</b>		<b>(12,828)</b>	<b>(10,798)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>16,574</b>	<b>(6,204)</b>
Cash and cash equivalents at beginning of year		14,147	20,227
Effects of exchange rate changes on cash and cash equivalents		38	124
<b>Cash and cash equivalents at end of year</b>	14	<b>30,759</b>	<b>14,147</b>

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 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)
<b>Total comprehensive income for the year</b>	–	–	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)
<b>Total transactions with owners:</b>	–	–	–	–	–	–	–	(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
<b>Comprehensive income for the year:</b>										
Profit for the year	–	–	–	–	–	–	–	–	13,356	13,356
Other comprehensive income	–	–	(189)	66	–	–	–	–	–	(123)
Deferred tax credit on available-for-sale investments	–	–	(90)	–	–	–	–	–	–	(90)
<b>Total comprehensive income for the year</b>	–	–	(279)	66	–	–	–	–	13,356	13,143
Transactions with owners:										
Dividends	–	–	–	–	–	–	–	–	(9,345)	(9,345)
Share-based payment expense	–	–	–	–	–	–	–	–	2,039	2,039
Deferred tax credit on share-based payment expense	–	–	–	–	–	–	–	–	2,277	2,277
Purchase of own shares by EBT	–	–	–	–	–	–	–	(3,483)	–	(3,483)
<b>Total transactions with owners:</b>	–	–	–	–	–	–	–	(3,483)	(5,029)	(8,512)
Balance as at 30 June 2017	246	14,688	1	380	44,433	84	4,442	(4,766)	8,859	68,367

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 2016.

#### 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 2018 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 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 Employee Benefit Trust is included in the consolidated financial statements of the Group. The trust 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 trust 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 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 re-translated.

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 are translated at the daily exchange rate for the date on which they are incurred; 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. This involves judgements including business growth and estimates including discount rates, which are described in note 9;
- Recognition of management and performance fee revenues. This involves estimates of AUM/NUM positions for the purposes of accruing revenue, which are described in note 3;
- Provisions, which are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Determining whether provisions are required and at what level, requires both judgement and estimates;
- The accounting for share-based remuneration. This involves estimates of future share prices for national insurance cost and judgements relating to forfeiture rates and business outcomes, which are described in note 7.

## 3. Revenue

### Net management fees

Net management fees represent the fees charged pursuant to an IMA with clients. They are reported net of rebates to clients and commissions paid to third parties and are charged as a percentage of the client's Assets under Management (AUM) or Notional under Management (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 2017, rebates and commissions totalling £2,094,000 (2016: £1,971,000) were paid to clients and 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 project. Advisory revenue is reported net of revenue share arrangements with other advisory partners. During the year ended 30 June 2017, £Nil was paid to (2016: £68,000 was reclaimed from) a subsidiary of PSG (see related party note 25) and £Nil was paid to (2016: £2,000 was reclaimed from) a third party, under revenue sharing arrangements relating to Palisades, which was part of the Group's US business and was disposed of in the prior year. 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 in the prior year included the realised gains and fair value movements relating to fund units held by the ACD (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 and results are not analysed to a profit level. 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 2017 and 30 June 2016 together with the year-end AUM and NUM, reflect the activities of the respective divisions.

	Year ended 30 June 2017		Year ended 30 June 2016	
	Net revenue £'000	Fee earning AUM/NUM £m	Net revenue £'000	Fee earning AUM/NUM £m
<b>Net management and advisory fees</b>				
Fiduciary Management division	17,677	10,528	13,871	9,287
Derivative Solutions division	10,883	16,888	9,481	13,903
Equity Solutions division	16,811	3,633	13,412	2,358
Advisory division	10,522	N/A	8,905	N/A
<b>Total</b>	<b>55,893</b>	<b>31,049</b>	<b>45,669</b>	<b>25,548</b>

In addition, performance fees of £6.6m (2016: £1.2m) were earned by the Fiduciary Management division and £6.0m (2016: £0.3m) earned by the Equity Solutions division.

No single client accounts for more than 10% of the revenue of the Group (2016: 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 2017 was £4.8m (2016: £4.2m). The AUM/NUM of the US business was £630m (2016: £648m).

Non-current assets held by the US business include £1.5m (2016: £1.4m) of goodwill.

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**5. Administrative expenses**

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Marketing	839	825
Travel and entertainment	498	467
Office facilities	2,192	1,822
Technology and communications	3,720	2,692
Professional fees	1,027	1,266
Governance expenses	413	706
Fund administration	481	612
Other costs	1,250	1,400
<b>Total administrative expenses (recurring)</b>	<b>10,420</b>	<b>9,790</b>
IT migration expenses	1,142	–
<b>Total administrative expenses</b>	<b>11,562</b>	<b>9,790</b>

Included in other costs is the cost of insurance of £234,000 (2016: £345,000), staff training and recruitment of £217,000 (2016: £447,000) irrecoverable VAT of £226,000 (2016: £281,000), and bad and doubtful debt expense of £305,000 (2016: £24,000).

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

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Audit of the Company's annual accounts	95	108
Audit of the Company's subsidiaries	80	82
Audit related assurance services	55	46
Tax compliance services	19	18
	<b>249</b>	<b>254</b>

The tax compliance remuneration relates to services provided in respect of the period to 30 June 2016. Tax compliance services are no longer provided by the Group's auditor.

**6. Remuneration and benefits**

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

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

Variable remuneration also includes a charge of £1,515,000 (2016: £316,000) relating to the amortisation of the Group's non-dilutive share awards and £409,000 (2016: £52,000) of associated social security costs.

	Year ended 30 June 2017 No.	Year ended 30 June 2016 No.
<b>The average number of employees (including Directors) employed was:</b>		
Advisory division	68	63
Fiduciary Management division	55	51
Derivative Solutions division	24	22
Equity Solutions division	20	16
Distribution	12	13
Corporate	29	29
<b>Total average headcount</b>	<b>208</b>	<b>194</b>

	Note	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>The aggregate remuneration of employees (including Directors) comprised:</b>			
Wages and salaries		29,788	22,298
Social security costs		3,326	2,276
Pension costs (defined contribution)		686	644
Share-based payment expense	7	1,515	316
<b>Total remuneration and benefits (excluding EPSP)</b>		<b>35,315</b>	<b>25,534</b>
Fixed remuneration		20,114	18,423
Variable remuneration		15,201	7,111
		<b>35,315</b>	<b>25,534</b>
<b>EPSP costs:</b>			
Share-based payment expense	7	452	452
Social security costs	7	1,114	(169)
<b>Total EPSP costs</b>		<b>1,566</b>	<b>283</b>

#### Directors' remuneration

The aggregate remuneration and fees payable to Executive and Non-Executive Directors for the year ended 30 June 2017 was £3,568,000 (2016: £2,582,000). Fees payable for the year ended 30 June 2017 to Directors of PSG and Pacific Investments totalled £43,000 and £Nil (2016: £49,000 and £16,000) respectively.

The remuneration of the Executive Directors (which includes the highest paid Director) is included in the remuneration report on page 44.

#### Key management remuneration

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

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Short-term employee benefits	9,069	6,014
Post employment benefits	111	92
Share-based payment expense	1,586	600
	<b>10,766</b>	<b>6,706</b>

Details of share awards granted to Executive Directors for future performance periods are included in the remuneration report on page 44.

#### 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 Executive Performance Share Plan (EPSP) to grant the Executive Directors performance share awards. At the date of admission two classes of performance share awards were made: Performance Condition A awards and Performance Condition B awards. 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 2017.

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.

**7. Share-based payments continued**

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 awards are 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 2017, no shares had been granted, forfeited, exercised, expired or vested under either the A or B awards (2016: none).

The fair value of the Performance shares was determined by an independent valuation undertaken by Ernst & Young LLP on behalf of the Remuneration Committee. 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 38p per share and the fair value of the Performance Condition B awards is 17p per share. The total fair value of Performance Condition A and B awards is estimated at £1.8m and £0.4m 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 2017 (2016: £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 2017 is one year.

The Directors expect that any shares that vest will be subject to applicable employers national insurance 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 2017 was a charge of £1,114,000 (2016: credit £169,000) and is included in the share-based payment expense. This figure assumes that 100% (2016: 43%) of the Performance Condition A awards will vest, which is an estimate subject to uncertainty.

**Performance Share Plan**

The Group's Performance Share Plan and Deferred Equity Plan (collectively 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 to shareholders, as the shares will be purchased by the Employee Benefit Trust.

The charge recognised in remuneration expense in respect of PSP awards in the year ended 30 June 2017 is £1,515,000 (2016: £316,000). Additionally, an accrual of £361,000 (2016: £52,000) 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.

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.

**2016 awards**

The Directors granted awards to staff in respect of the year ended 30 June 2016. These awards totalled £354,000 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, 30 June 2018 or 30 June 2019. These awards are in respect of employee services during the year ended 30 June 2016 and in future periods.

In addition, approximately 1.2m shares were awarded to staff and Executive Directors for future periods. These awards are in respect of employee services during the year ended 30 June 2017 and in future periods.

The awards contain a combination of performance measures, including: continued employment; Group TSR; achieving strategic priorities 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.

**2017 awards**

The Directors granted awards to Executive Directors and employees in respect of the year ended 30 June 2017. These awards total £1,533,000 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, 30 June 2019 or 30 June 2020. These awards are in respect of employee services during the year ended 30 June 2017 and in future periods. Therefore the accounting charge in respect of the awards is recognised in part in the year ended 30 June 2017.

In addition, approximately 272,000 shares were awarded to employees 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.

The fair value of the awards has been estimated using a combination of Monte Carlo simulation and Black-Scholes modelling. For the purposes of these financial statements the figures have been estimated using the share price as at 9 August 2017, being £3.35.



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

	Share plan 1	Share plan 2	Share plan 3	Share plan 4	Share plan 5	Share plan 6	Share Plan 7	Share plan 8
Financial year of award	2015	2015	2015	2016	2016	2016	2017	2017
Grant date award value £	619,735	375,000	47,665	365,825	1,971,154	685,000	576,821	956,000
Grant date share price £	2.22	2.22	2.22	2.21	2.21	2.21	3.35	3.35
<b>Number of shares:</b>								
Number of shares outstanding at 30 June 2015	279,160	168,919	21,471	–	–	–	–	–
Number of shares granted during the year	–	–	–	165,525	–	–	–	–
Number of shares forfeited in the year	(33,692)	–	(4,955)	–	–	–	–	–
Number of shares exercised during the year	–	–	–	–	–	–	–	–
Number of shares outstanding at 30 June 2016	245,468	168,919	16,516	165,525	–	–	–	–
Number of shares granted during the year	–	–	–	–	891,889	309,943	256,365	424,889
Number of shares forfeited during the year	–	–	–	(18,099)	(30,189)	–	–	–
Number of shares exercised during the year	–	–	–	–	–	–	–	–
<b>Number of shares outstanding at 30 June 2017</b>	<b>245,468</b>	<b>168,919</b>	<b>16,516</b>	<b>165,860</b>	<b>861,700</b>	<b>309,943</b>	<b>256,365</b>	<b>424,889</b>
<b>Fair value assumptions:</b>								
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil	£nil	£nil
Risk free rate	0.94%	0.94%	0.94%	0.94%	1.00%	1.00%	1.00%	1.00%
Share price volatility	26.08%	26.08%	26.08%	27.40%	27.40%	27.40%	27.90%	27.90%
Dividend yield	5%	5%	5%	5%	5%	5%	5%	5%
<b>Key terms:</b>								
Vesting period	01/07/2014 –30/06/2017	01/07/2014 –30/06/2018	01/07/2014 –30/06/2017	01/07/2015 –30/06/2018	01/07/2016 –30/06/2019	01/07/2016 –30/06/2019	01/07/2016 –30/06/2019	01/07/2016 –30/06/2020
Weighted average remaining contractual life	<1 year	1 year	<1 year	1 year	2 years	2 years	2 years	3 years
12% compounded TSR Hurdle over vesting period	Yes	Yes	No	No	Yes	Yes	No	Yes
Continued employment required (subject to good leaver provisions)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Other key terms	1 – see below	None	None	None	2 – see below	None	None	None
Vesting profile per individual	3 – see below	All or nothing	All or nothing	All or nothing	Measured at the end of each year	All or nothing	All or nothing	All or nothing
<b>Grant date fair value per share (pence)</b>	<b>60.69</b>	<b>51.71</b>	<b>204.69</b>	<b>175.79</b>	<b>175.79</b>	<b>175.79</b>	<b>305</b>	<b>255</b>
<b>No of shares expected to vest</b>	<b>78,550</b>	<b>168,919</b>	<b>16,516</b>	<b>116,799</b>	<b>473,936</b>	<b>309,943</b>	<b>219,800</b>	<b>346,075</b>

1. Achievement of specified divisional AUM/NUM and revenue targets within a range.
2. Achievement of specified revenue targets within a range.
3. Straight-line between minimum and maximum divisional AUM/NUM and revenue targets.

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 exercise at the end of the vesting period subject to the approval of the Remuneration Committee. As at the reporting date 556,159 of the awards were exercisable (2016: none).

#### 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 primarily 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 lives of between five and ten 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 11).

**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 the 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 CGU 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****Investment Management Agreements and 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 ten years. The identified intangible assets are carried at cost less accumulated amortisation calculated on a straight-line basis.

**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.

	Goodwill £'000	Customer lists and IMAs £'000	Software £'000	Total £'000
<b>Cost:</b>				
At 1 July 2015	15,201	36,510	–	51,711
Disposals	(169)	–	–	(169)
Exchange difference	198	–	–	198
At 30 June 2016	15,230	36,510	–	51,740
Additions	–	–	79	79
Disposals	–	–	–	–
Exchange difference	101	–	–	101
<b>At 30 June 2017</b>	<b>15,331</b>	<b>36,510</b>	<b>79</b>	<b>51,920</b>
<b>Accumulated amortisation and impairment:</b>				
At 1 July 2015	(395)	(5,463)	–	(5,858)
Amortisation charge	–	(4,330)	–	(4,330)
At 30 June 2016	(395)	(9,793)	–	(10,188)
Amortisation charge	–	(4,330)	–	(4,330)
Exchange difference	–	(49)	–	(49)
<b>At 30 June 2017</b>	<b>(395)</b>	<b>(14,172)</b>	<b>–</b>	<b>(14,567)</b>
<b>Net book value:</b>				
At 30 June 2016	14,835	26,717	–	41,552
<b>At 30 June 2017</b>	<b>14,936</b>	<b>22,338</b>	<b>79</b>	<b>37,353</b>

There was £79,000 of software acquisitions in the year ended 30 June 2017 (2016: none). The disposal of goodwill in the prior year relates to the disposal of the Palisades business.

### Credit Suisse co-operation agreement

On 26 June 2017, the Group announced a co-operation agreement with Credit Suisse, under which the Emerging Markets Industrial Lifecycle (ILC) team would join the Group. This agreement is non-binding and so does not represent a business combination in the year ended 30 June 2017. The Directors expect that the transition of assets under management to the Group will be completed in the year ended 30 June 2018.

### 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 (2016: £13.2m) in respect of RAMAM, £1.5m (2016: £1.4m) in respect of Cassidy and £0.2m (2016: £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 business. The value in use was measured using internal budgets and forecasts to generate a 5-year view. A 15% revenue growth rate was assumed until 2022 with zero growth in to perpetuity and a pre-tax discount rate of 12%.

The key assumptions included in the estimate besides revenue are 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. It was determined that a growth rate of 8% or a discount rate of 19% would still result in a positive NPV and the overall assessment is therefore that there is no indication of impairment.

The Directors estimated the recoverable amount of the Cassidy goodwill based upon the value in use of the business. The value in use was measured using internal budgets and forecasts covering a period of 3 years, with a 2% revenue growth rate assumption for perpetuity cash flows and a pre-tax discount rate of 13%. There were also no significant client losses in the period which could otherwise have been an indicator of possible impairment.

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. A greater than 10% increase in the discount rate was required to indicate impairment.

### 10. Finance income and expense

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

Finance income includes £14,000 of bank interest (2016: £28,000), £22,000 of interest earned from a loan to Palisades (2016: £13,000) £8,000 of foreign exchange gain (2016: £41,000) and £2,000 of other finance income (2016: £2,000).

### 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 profit before tax 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 2017 £'000	Year ended 30 June 2016 £'000
<b>Current tax:</b>		
Current tax on profits for the year	4,874	2,483
Adjustments in respect of prior years	3	(72)
<b>Total current tax</b>	<b>4,877</b>	<b>2,411</b>
Deferred tax – origination and reversal of timing differences	(1,844)	(1,040)
<b>Total tax charge</b>	<b>3,033</b>	<b>1,371</b>

**11. Current and deferred tax continued**

The total tax charge assessed for the year is £203,000 lower (2016: £76,000 lower) than the average standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>Profit before tax</b>	<b>16,389</b>	<b>7,236</b>
Profit before tax multiplied by the average rate of corporation tax in the UK of 19.75% (2016: 20%)	<b>3,236</b>	<b>1,447</b>
<b>Effects of:</b>		
Expenses not deductible for tax purposes	<b>1,638</b>	<b>1,036</b>
Deferred tax on amortisation of RAMAM IMAs	<b>(1,306)</b>	<b>(866)</b>
Income not subject to tax	<b>–</b>	<b>(10)</b>
Adjustment in respect of prior years	<b>3</b>	<b>(72)</b>
Other timing differences	<b>(538)</b>	<b>(164)</b>
<b>Total tax charge</b>	<b>3,033</b>	<b>1,371</b>

Effective from 1 April 2017, the applicable UK corporation tax rate was reduced from 20% to 19%.

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

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>Deferred tax assets</b>		
At beginning of year	<b>609</b>	<b>528</b>
(Charge)/credit to the income statement:		
– accelerated capital allowances	<b>12</b>	<b>(12)</b>
– deductible temporary differences	<b>(25)</b>	<b>15</b>
– share-based payment expense	<b>548</b>	<b>171</b>
Credit/(debit) to equity – share-based payment expense	<b>2,277</b>	<b>(93)</b>
<b>At end of year</b>	<b>3,421</b>	<b>609</b>
<b>Deferred tax liabilities</b>		
At beginning of year	<b>5,347</b>	<b>6,174</b>
Credit to the income statement:		
– amortisation of intangibles	<b>(849)</b>	<b>(866)</b>
– adjustment to deferred tax on intangibles due to changes in tax rates	<b>(460)</b>	<b>–</b>
Credit/(debit) to equity:		
– movement on fair value of available-for-sale investments	<b>90</b>	<b>39</b>
– recycling of deferred tax on disposal of available-for-sale investments	<b>(159)</b>	<b>–</b>
<b>At end of year</b>	<b>3,969</b>	<b>5,347</b>

**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 is 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 is compared against the respective performance criteria of the awards 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 2017 and dividends paid, 100% (2016: none) of the EPSP Performance Condition A shares and 21% (2016: none) of the EPSP Performance Condition B shares would have met the vesting criteria. As a result, 5,029,000 shares were dilutive. There were no share awards that were anti-dilutive in the year but which may be dilutive in future periods (2016: none).

	Year ended 30 June 2017	Year ended 30 June 2016
Profit attributable to owners of the parent (£'000)	<b>13,356</b>	<b>5,865</b>
Weighted average number of shares in issue ('000)	<b>81,149</b>	<b>82,048</b>
Weighted average number of diluted shares ('000)	<b>86,288</b>	<b>82,048</b>
<b>Earnings per share:</b>		
Basic (pence)	<b>16.45</b>	<b>7.15</b>
Diluted (pence)	<b>15.48</b>	<b>7.15</b>

**Reconciliation between weighted average number of shares in issue**

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Weighted average number of shares in issue – basic	81,149	82,048
Dilutive effect of shares granted under EPSP and save-as-you-earn	5,139	–
<b>Weighted average number of shares in issue – diluted</b>	<b>86,288</b>	<b>82,048</b>

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 2017, the EBT held 1,884,000 shares (2016: 564,000). The weighted average number held by the EBT during the year was 899,000 (2016: 239,000).

**Adjusted profit**

Adjusted profit comprises adjusted underlying profit and performance fee profit.

Adjusted underlying profit represents net management and advisory fees less associated remuneration, recurring administrative expenses (excluding IT transition costs), depreciation, and finance income and expense.

Performance fee profit represents performance fees, less the associated remuneration costs. In the current year, it also includes the gain on disposal of the Group's DAA fund.

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>Adjusted underlying profit</b>		
Net management and advisory fees	55,893	45,669
Administrative expenses–recurring	(10,420)	(9,790)
Underlying remuneration at 52%/54%	(29,040)	(24,771)
Depreciation	(116)	(103)
Finance income/expense	43	79
Adjusted underlying profit before tax	16,360	11,084
Taxes	(3,443)	(2,158)
Adjusted underlying profit after tax	12,917	8,926
Adjusted underlying pre-tax margin	29%	24%
<b>Performance fee profit</b>		
Performance fees	12,549	1,526
Other income	–	2
Less remuneration at 50%/50%	(6,275)	(763)
Plus gain on disposal of available-for-sale assets	793	–
Performance fee profit before tax	7,067	765
Taxes	(1,395)	(155)
Performance fee profit after tax	5,672	610
Adjusted profit before tax	23,427	11,849
Adjusted profit after tax	18,589	9,536

**Reconciliation to statutory profit**

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Profit before tax	16,389	7,236
<b>Adjustments:</b>		
Amortisation of intangible assets and IMA	4,330	4,330
IT migration costs	1,142	–
EPSP costs	1,566	283
<b>Adjusted profit before tax</b>	<b>23,427</b>	<b>11,849</b>

IT migration costs are the non-recurring costs of transitioning the Group's IT infrastructure from PSG and represent the final part of the separation from Punter Southall Group (PSG) under the Transitional Services Agreement (TSA).

## 12. Earnings per share continued

### Adjusted earnings per share

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Adjusted profit after tax	18,589	9,536
Weighted average shares	81,149	82,048
Weighted average diluted shares	86,288	82,048
<b>Adjusted EPS:</b>		
Basic (pence)	22.90	11.62
Diluted (pence)	21.54	11.62

## 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:

	Ordinary (p)	Special (p)	Total (p)	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
2015 second interim	3.6	1.0	4.6	–	3,776
2015 final	3.8	n/a	3.8	–	3,120
2016 first interim	3.25	0.35	3.6	–	2,955
2016 second interim	3.3	0.1	3.4	2,771	–
2016 final	2.5	n/a	2.5	2,034	–
2017 first interim	4.2	1.4	5.6	4,540	–
				<b>9,345</b>	<b>9,851</b>

A second interim dividend in respect of the year of 8.1p per share has been declared by the Directors, of which 2.8p is a special dividend relating to net performance fees. The Directors have proposed to shareholders a final dividend in respect of the year of 6.0p per share, of which 2.8p is a special dividend relating to net performance fees. Based upon the number of shares held by the EBT at the year-end (upon which dividends are waived), the expected total payments are £6.5m and £4.8m 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	20,677	A1 –	Moody's
Lloyds Bank	9,695	Baa1	Moody's
BMO Harris Bank	26	Baa1	Moody's
First Republic Bank	361	A1	Moody's
<b>Total cash and cash equivalents</b>	<b>30,759</b>		

## 15. Investment management balances

	30 June 2017 £'000	30 June 2016 £'000
Investment management receivables	62,138	15,448
Investment management payables	60,317	14,655

As ACD of River and Mercantile Funds ICVC (the ICVC) 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 as at 30 June 2017 (2016: £Nil).

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

### 16. Available-for-sale investments

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

A gain of £793,000 was realised on redemption of the Group's position in the fund which is shown in the income statement. During the year, the Group invested £10,000 of seed capital in the River and Mercantile Global High Alpha fund.

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

	£'000
At 1 July 2015	5,155
Movement in fair value	195
At 30 June 2016	5,350
Additions	10
Movement in fair value	445
Disposals	(5,793)
<b>At 30 June 2017</b>	<b>12</b>

### 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 2017, a provision of £55,000 (2016: £82,000) has 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 2017 £'000	30 June 2016 £'000
Neither past due nor impaired	4,254	4,668
Past due but not impaired:		
– Less than three months	995	1,057
– More than three months	370	763
Impaired:		
– More than three months	55	82
– Provision for impairment	(55)	(82)
<b>Total fee receivables</b>	<b>5,619</b>	<b>6,488</b>

The average credit period on fee receivables is 27 days (2016: 46 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 2017 £'000	30 June 2016 £'000
Accrued income	13,088	9,239
Prepayments	1,080	808
Other assets	730	719
	<b>14,898</b>	<b>10,766</b>

Accrued income includes management, advisory and performance 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
<b>Cost:</b>			
At 1 July 2015	606	182	788
Additions	82	185	267
At 30 June 2016	688	367	1,055
Additions	2	–	2
<b>At 30 June 2017</b>	<b>690</b>	<b>367</b>	<b>1,057</b>
<b>Accumulated depreciation:</b>			
At 1 July 2015	528	52	580
Depreciation charge	53	50	103
Exchange difference	(5)	–	(5)
At 30 June 2016	576	102	678
Depreciation charge	73	43	116
<b>At 30 June 2017</b>	<b>649</b>	<b>145</b>	<b>794</b>
<b>Net book value:</b>			
At 30 June 2016	112	265	377
<b>At 30 June 2017</b>	<b>41</b>	<b>222</b>	<b>263</b>

**20. Trade and other payables**

	30 June 2017 £'000	30 June 2016 £'000
Trade payables	1,042	450
VAT payable	697	401
Remuneration accruals	14,210	6,714
Other accruals and payables	2,750	2,266
	<b>18,699</b>	<b>9,831</b>

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 2017		30 June 2016	
	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 purchased Group shares in relation to the PSP scheme (note 7). The shares held are measured at cost.

	£'000
Opening balance at 1 July 2016	1,283
Acquisition of shares by the EBT	3,483
<b>Balance as at 30 June 2017</b>	<b>4,766</b>



## 22. Other reserves

	30 June 2017 £'000	30 June 2016 £'000
Available-for-sale reserve (including deferred tax)	1	280
Foreign exchange reserve	380	314
Capital redemption reserve	84	84
Merger reserve	44,433	44,433
Capital contribution reserve	4,442	4,442
	<b>49,340</b>	<b>49,553</b>

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

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

	30 June 2017 £'000	30 June 2016 £'000
No later than one year	724	809
Later than one year and no later than five years	2,426	2,745
Later than five years	513	919
	<b>3,663</b>	<b>4,473</b>

## 24. Contingent liabilities

The Group's subsidiary RAMAM is co-operating with an investigation by the FCA under its concurrent competition powers relating to the participation of RAMAM in two transactions. The matter does not affect any clients of the Group or the NAV of any fund or segregated mandate. The Group has not been notified of the outcome of this investigation and so it remains uncertain whether there will be any impact on the Group. However, in the event of a financial impact, the Directors do not expect the net outcome to be material to the financial statements.

## 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
- Pacific Investments Management Limited, its subsidiary undertakings and controlling shareholder, Sir John Beckwith (collectively 'Pacific Investments') were considered to be related parties as they held significant influence over the Group by virtue of holding more than 10% of the issued share capital of the Group. Following a disposal by Pacific Investments in March 2017, they now hold less than 10% and are therefore no longer considered a related party.

### Significant transactions with Pacific Investments

There have been no significant transactions with Pacific Investments during the year (2016: none).

## 25. Related party transactions continued

### Significant transactions with PSG

	30 June 2017 £'000	30 June 2016 £'000
<b>Administrative charges from PSG:</b>		
Office facilities	931	875
Technology and communications	470	686
<b>Professional fees:</b>		
Accounting services	–	68
<b>Total administrative charges and professional fees</b>	<b>1,401</b>	<b>1,629</b>
Advisory fee revenue share received related to Palisades	–	68

### Receivables and payables with related parties

	30 June 2017 £'000	30 June 2016 £'000
<b>Amount (due to)/due from related party:</b>		
PSG	(224)	(35)
<b>Total</b>	<b>(224)</b>	<b>(35)</b>

### 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 de-recognised when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised 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 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 re-measurement 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.

### 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 and other payables are initially measured at fair value and are subsequently measured at 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 2017 £'000	30 June 2016 £'000
<b>Financial assets</b>		
Cash and cash equivalents	30,759	14,147
Investment management balances	62,138	15,448
Fee receivables	5,619	6,488
Other receivables	13,818	9,958
<b>Total loan and receivables</b>	<b>112,334</b>	<b>46,041</b>
Available-for-sale investments	12	5,350
<b>Total available-for-sale</b>	<b>12</b>	<b>5,350</b>
<b>Total financial assets</b>	<b>112,346</b>	<b>51,391</b>

Other receivables exclude prepayments.

	30 June 2017 £'000	30 June 2016 £'000
<b>Financial Liabilities</b>		
Investment management balances	60,317	14,655
Trade and other payables	17,439	8,933
<b>Total other liabilities at amortised cost</b>	<b>77,756</b>	<b>23,588</b>
<b>Total financial liabilities</b>	<b>77,756</b>	<b>23,588</b>

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.

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 aging of receivables and the credit quality of the counterparties with which it does business.

The aging 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 (2016: 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 £62.1m (2016: £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 aging of the investment management positions and take recovery action as appropriate.

**26. Financial instruments continued****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:

	30 June 2017 £'000	30 June 2016 £'000
Fee receivables	643	259
Cash and cash equivalents	615	654
Payables	(868)	(622)
<b>Total</b>	<b>390</b>	<b>291</b>

A 10% fluctuation in the exchange rate between US Dollars and UK Pounds sterling on the outstanding foreign currency denominated monetary items at year-end balances would result in a post-tax increase/decrease in profit of £39,000 (2016: £29,000).

The majority of the Group's other foreign currency exposure is with its US-based subsidiary P-Solve LLC. As at 30 June 2017, P-Solve LLC had net assets of \$1,895,000 (2016: \$720,000), thus any future fluctuations in the exchange rate will have a limited impact on the Group and are 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, cash deposits with banks earn a floating rate of interest and the interest income is not significant in either year.

**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.

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 analysis.

The Group has entered into operating leases over its premises. Note 23 discloses the future aggregate minimum lease payments at the balance sheet date, net of rebates over the life of the contracts.

At 30 June 2017 the Group had cash and cash equivalents of £30.8m (2016: £14.1m).

As ACD of River and Mercantile Funds ICVC (the 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 not attributable to client fund transactions can be utilised by RAMAM within a 24-hour notice period and thus the account is considered liquid. At 30 June 2017 £1.1m (2016: £1.3m) 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 and does not take account of any cash flows generated from profits on normal trading activities.

	On demand £'000	< 3 months £'000	3–12 months £'000
<b>As at 30 June 2017</b>			
<b>Assets</b>			
Cash and cash equivalents	30,759	–	–
Investment management balances	–	62,138	–
Fee receivables	–	5,249	370
Other receivables	–	13,818	–
<b>Total financial assets</b>	<b>30,759</b>	<b>81,205</b>	<b>370</b>
<b>Liabilities</b>			
Investment management balances	–	60,317	–
Trade and other payables	–	17,439	–
<b>Total financial liabilities</b>	<b>–</b>	<b>77,756</b>	<b>–</b>
<b>Net liquidity surplus</b>	<b>30,759</b>	<b>3,449</b>	<b>370</b>

	On demand £'000	< 3 months £'000	3–12 months £'000
As at 30 June 2016			
<b>Assets</b>			
Cash and cash equivalents	14,147	–	–
Investment management balances	–	15,448	–
Fee receivables	–	5,667	821
Other receivables	–	9,958	–
<b>Total financial assets</b>	<b>14,147</b>	<b>31,073</b>	<b>821</b>
<b>Liabilities</b>			
Investment management balances	–	14,655	–
Trade and other payables	–	8,933	–
<b>Total financial liabilities</b>	<b>–</b>	<b>23,588</b>	<b>–</b>
<b>Net liquidity surplus</b>	<b>14,147</b>	<b>7,485</b>	<b>821</b>

### Capital management

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

The Group's capital structure consists of equity (share capital and share premium) and retained earnings; capital is managed on a consolidated and individual entity basis to ensure that each entity is able to continue as a going concern. Three of the Group's 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 requirements throughout the period covered by these financial statements.

### 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 %	Registered office address	Nature of business
P-Solve Investments Limited <sup>1</sup>	UK	100/100	11 Strand, London, WC2N 5HR	Investment management
P-Solve Holdings Limited <sup>1</sup>	UK	100/70	11 Strand, London, WC2N 5HR	Holding company for the US business
P-Solve LLC <sup>1 2</sup>	US	100/100	200 West St, Waltham, MA 02451, US	Actuarial and consulting
River and Mercantile Holdings Limited	UK	100/100	11 Strand, London, WC2N 5HR	Holding company
River and Mercantile Asset Management LLP <sup>1</sup>	UK	100/100	30 Coleman St, London, EC2R 5AL	Investment management
River and Mercantile Asset Management LLC <sup>1 2</sup>	US	100/100	1521 Concord Pike, Wilmington, 19803, US	Marketing
River and Mercantile Group Services Limited <sup>1 2</sup>	UK	100/100	11 Strand, London, WC2N 5HR	Dormant service company
River and Mercantile Group Trustees Limited <sup>1 2</sup>	UK	100/100	11 Strand, London, WC2N 5HR	Dormant service company
River and Mercantile Group Employee Benefit Trust	UK	0/0		Employee Benefit Trust

<sup>1</sup> Indirect holding

<sup>2</sup> Exempt from audit requirements

The Company indirectly holds 20,250,896 ordinary shares in P-Solve Holdings Limited which carry 100% of the voting rights. A further 8,793,056 A ordinary shares of P-Solve Holdings Limited (representing 30% of the total issued ordinary share capital) are held by employees and ex-employees of P-Solve LLC. The A ordinary shares of P-Solve Holdings Limited do not carry any voting rights, but rank equally with the ordinary shares in respect of dividend rights; and capital rights above a hurdle of £1.8m.

River and Mercantile Asset Management LLP and LLC have reporting years ending 31 March and 31 December respectively on a standalone 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).

Topic	Key requirements	Effective date
Applying IFRS 9 Financial Instruments	The objective of the amendments is to address the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and the forthcoming insurance contracts standard (expected to be IFRS 17).	1 January 2018
Annual improvements to IFRSs (2014-2016 Cycle)	<p>IFRS 1 has been amended to remove short-term exemptions dealing with IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IFRS 10 Consolidated Financial Statements.</p> <p>IFRS 12 Disclosure of Interests in Other Entities. Amendments have been made to clarify the scope of IFRS 12 in respect of interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.</p> <p>IAS 28 Investments in Associates and Joint Ventures. Clarified that the election to measure at fair value through profit or loss an investment in an associate or joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture or an investment-by-investment basis, upon initial recognition.</p>	1 January 2017 and 1 January 2018
IFRIC 22 Foreign Currency Translations and Advance Consideration	IFRIC 22 addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on an initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency (e.g. a prepayment or deferred income).	1 January 2018
Amendments to IAS 40; Transfers of Investment Property	IAS 40 requires a property to be transferred to, or from, investment property only when there is a change in use. The amendment clarifies that a change in management's intentions for the use of a property does not in isolation provide evidence of a change in use. This is because management's intentions, alone, do not provide evidence of a change in use.	1 January 2018
IFRS 16 Leases	<p>IFRS 16 replaces the outgoing IAS 17 and makes a significant change to how leases are accounted for, in that it removes the distinction between operating and finance leases. Under IAS 17, leases classified as finance leases led to the capitalisation of the underlying asset being leased, and the recording of a liability reflecting future lease payments. Operating leases (such as building rent), are simply expensed to the income statement. R&amp;M Group only has operating leases under IAS 17.</p> <p>Under IFRS 16, all lease contracts are accounted for more in line with the previous finance lease approach where lessees have to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for almost all lease contracts.</p> <p>In the income statement lessees will have to present interest expense on the lease liability and depreciation on the right-of-use asset. In the cash flow statement the part of the lease payments that reflects interest on the lease liability can be presented as an operating cash flow (if it is the entity's policy to present interest payments as operating cash flows). Cash payments for the principal portion of the lease liability are classified within financing activities. Payments for short-term leases, for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are presented within operating activities.</p>	1 January 2019
IFRS 15 Revenue recognition	IFRS 15 replaces the outgoing IAS 18 with the objective of establishing the principles that an entity shall apply to report information to users of financial statements about the nature, amounts, timing and uncertainty of revenue and cash flow arising from a contract with a client. The introduction of IFRS 15 is to close the gap between IFRS and US GAAP.	1 January 2018

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 are likely to 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 8.1p per share has been declared, of which 2.8p is a special dividend relating to net performance fees. The Directors have proposed a final dividend in respect of the year of 6.0p per share, of which 2.8p is a special dividend relating to net performance fees. Based upon the number of shares held by the EBT at the year-end (upon which dividends are waived), the expected total payments are £6.5m and £4.8m for the second interim and final dividends respectively.

Pursuant to the ILC team joining the Group, in July 2017 the Group entered into a new operating lease for office facilities in Chicago. In August 2017, the Group entered into new operating leases for an existing floor and an additional floor of its Coleman Street offices.

<b>COMPANY STATEMENT OF FINANCIAL POSITION</b>
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	Note	30 June 2017 £'000	30 June 2016 £'000
<b>Assets</b>			
Cash and cash equivalents	2	15,182	7,633
Other receivables	3	5,663	10,094
Deferred tax asset	4	2,629	437
Property, plant and equipment	5	19	38
Intangible assets	6	79	–
Investments	7	56,941	55,756
<b>Total assets</b>		<b>80,513</b>	<b>73,958</b>
<b>Liabilities</b>			
Payables	8	5,980	1,543
Deferred tax liability		–	–
<b>Total liabilities</b>		<b>5,980</b>	<b>1,543</b>
<b>Net assets</b>		<b>74,533</b>	<b>72,415</b>
<b>Equity</b>			
Share capital	9	246	246
Share premium	10	14,688	14,688
Other reserves	11	48,384	48,384
Retained earnings		11,215	9,097
<b>Equity attributable to owners</b>		<b>74,533</b>	<b>72,415</b>

The Company's profit for the year was £7,461,000 (2016: £11,435,000).



<b>COMPANY STATEMENT OF CASH FLOWS</b>
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	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>Cash flow from operating activities</b>		
Loss before interest, tax and dividends from subsidiaries	(9,696)	(2,636)
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	20	2
EBT funding	3,582	1,283
Share-based payment expense	856	665
<b>Operating cash flow before movement in working capital</b>	<b>(5,238)</b>	<b>(686)</b>
Decrease/(increase) in operating assets	4,171	(4,020)
Increase in operating liabilities	4,281	291
<b>Cash generated by/(used in) operations</b>	<b>3,214</b>	<b>(4,415)</b>
Taxation received	788	106
<b>Net cash generated by/(used in) operations</b>	<b>4,002</b>	<b>(4,309)</b>
<b>Cash flow from investing activities</b>		
Purchase of intangible assets	(79)	–
Purchases of property, plant and equipment	(2)	(40)
Interest (paid)/received	(7)	96
Dividends received from subsidiaries	16,550	13,749
<b>Net cash generated by investing activities</b>	<b>16,462</b>	<b>13,805</b>
<b>Cash flow from financing activities</b>		
EBT funding settled	(3,570)	(945)
Dividends paid	(9,345)	(9,851)
<b>Net cash used in financing activities</b>	<b>(12,915)</b>	<b>(10,796)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>7,549</b>	<b>(1,300)</b>
Cash and cash equivalents at beginning of year	7,633	8,933
Effects of exchange rate changes on cash and cash equivalents	–	–
<b>Cash and cash equivalents at end of year</b>	<b>15,182</b>	<b>7,633</b>

## 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 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
Comprehensive income for the year:							
Profit for the year	–	–	–	–	–	7,461	7,461
<b>Total comprehensive income for the year</b>	–	–	–	–	–	7,461	7,461
Transactions with owners:							
Dividends	–	–	–	–	–	(9,345)	(9,345)
Share-based payment expense	–	–	–	–	–	2,039	2,039
Deferred tax credit on share-based payment expense	–	–	–	–	–	1,963	1,963
<b>Total transactions with owners:</b>	–	–	–	–	–	(5,343)	(5,343)
<b>Balance as at 30 June 2017</b>	<b>246</b>	<b>14,688</b>	<b>44,433</b>	<b>84</b>	<b>3,867</b>	<b>11,215</b>	<b>74,533</b>

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### 1. Basis of preparation

The Company's financial statements have been prepared in accordance with 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 2016.

### 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 2017 was £7,461,000 (2016: £11,435,000). This includes a charge of £3,582,000 relating to funding provided to the Group's EBT (2016: £1,283,000).

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.

### Employees

The Company had 16 employees during the year (2016: 8). Total remuneration costs were £8,060,000 (2016: £2,810,000). This change reflects restructuring of the location of staff for the Group's central functions.

### Dividends

See note 13 of the consolidated financial statements.

### 2. Cash and cash equivalents

Cash and cash equivalents 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, and the balance held at year-end.

Bank	£,000	Credit Rating	Rating Body
Barclays Bank	15,182	A1 –	Moody's

### 3. Other receivables

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Taxes and social security	202	171
Prepayments and accrued income	336	271
Amounts owed from Group undertakings	5,029	9,642
Other debtors	96	10
	<b>5,663</b>	<b>10,094</b>

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 2017 £'000	Year ended 30 June 2016 £'000
Current tax on profits for the year	(332)	(111)
Adjustments in respect of prior years	–	–
<b>Total current tax</b>	<b>(332)</b>	<b>(111)</b>
Deferred tax on origination and reversal of timing differences	(229)	(114)
<b>Total tax credit</b>	<b>(561)</b>	<b>(225)</b>

**4. Tax continued**

The tax assessed for the years is lower (2016: lower) than the average standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Profit before tax and EBT funding costs	10,381	12,493
Profit before tax multiplied by the average rate of corporation tax in the UK of 19.75% (2016: 20%)	2,050	2,499
Effects of:		
Income not assessable to tax	(3,268)	(2,750)
Group relief	1,218	–
Other timing differences	(561)	23
Expenses not deductible for tax purposes	–	3
<b>Total tax credit</b>	<b>(561)</b>	<b>(225)</b>
	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
<b>Deferred tax assets:</b>		
At beginning of year	437	399
Credit to the income statement – share-based payment expense	229	116
Debit/(credit) to equity – share-based payment expense	1,963	(78)
<b>At year-end</b>	<b>2,629</b>	<b>437</b>

**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	Total £'000
<b>Cost:</b>		
At 1 July 2015 and 30 June 2016	40	40
Additions	2	2
<b>At 30 June 2017</b>	<b>42</b>	<b>42</b>
<b>Accumulated depreciation:</b>		
At 1 July 2015 and 30 June 2016	2	2
Depreciation charge	21	21
<b>At 30 June 2017</b>	<b>23</b>	<b>23</b>
<b>Net book value:</b>		
At 1 July 2016	38	38
<b>At 30 June 2017</b>	<b>19</b>	<b>19</b>

**6. Intangible assets**

Intangible assets are carried at historical cost less accumulated amortisation and impairment. Amortisation charges the cost of the assets to the consolidated income statement over their expected useful lives.

	Software £'000	Total £'000
<b>Cost:</b>		
At 1 July 2015 and 30 June 2016	–	–
Additions	79	79
<b>At 30 June 2017</b>	<b>79</b>	<b>79</b>
<b>Accumulated amortisation and impairment:</b>		
At 1 July 2015 and 30 June 2016	–	–
Amortisation charge	–	–
<b>At 30 June 2017</b>	<b>79</b>	<b>79</b>
<b>Net book value:</b>		
At 1 July 2016	–	–
<b>At 30 June 2017</b>	<b>79</b>	<b>79</b>

## 7. Investments in subsidiaries

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
At start of year	55,756	55,635
Additions – share-based payments in subsidiaries	1,185	121
<b>At end of year</b>	<b>56,941</b>	<b>55,756</b>

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

## 8. Payables

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Trade payables	636	315
Accruals and deferred income	5,344	1,228
	<b>5,980</b>	<b>1,543</b>

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

## 9. Share capital

Full details of the Company's share capital can be found in note 21 of the consolidated financial statements.

## 10. Share premium

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

## 11. 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 2017 £'000	30 June 2016 £'000
Merger reserve	44,433	44,433
Capital contribution reserve	3,867	3,867
Capital redemption reserve	84	84
	<b>48,384</b>	<b>48,384</b>

As at 30 June 2017, the Company had £15,082,000 of distributable reserves (2016: £12,964,000)

## 12. 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 2017 £'000	30 June 2016 £'000
<b>Financial assets classified as loans and receivables</b>		
Cash and cash equivalents	15,182	7,633
Other receivables	3,133	9,653
<b>Total financial assets</b>	<b>18,315</b>	<b>17,286</b>

Other receivables exclude prepayments and accrued income.

	30 June 2017 £'000	30 June 2016 £'000
<b>Financial liabilities held at amortised cost</b>		
Payables	636	315
<b>Total financial liabilities</b>	<b>636</b>	<b>315</b>

Payables exclude accruals and deferred income.

**12. Financial instruments continued****Credit risk management**

Credit risk refers to the risk that a 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 intercompany 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 and does not take account of any cash flows generated from profits on normal trading activities.

	On demand £'000	< 3 months £'000	3-12 months £'000
<b>As at 30 June 2017</b>			
<b>Assets</b>			
Cash and cash equivalents	15,182	—	—
Other receivables	3,133	—	—
<b>Total financial assets</b>	<b>18,315</b>	<b>—</b>	<b>—</b>
<b>Liabilities</b>			
Payables	636	—	—
<b>Total financial liabilities</b>	<b>636</b>	<b>—</b>	<b>—</b>
		—	—
<b>Net liquidity surplus</b>	<b>17,679</b>	<b>—</b>	<b>—</b>
<b>As at 30 June 2016</b>			
<b>Assets</b>			
Cash and cash equivalents	7,633	—	—
Other receivables	9,653	—	—
<b>Total financial assets</b>	<b>17,286</b>	<b>—</b>	<b>—</b>
<b>Liabilities</b>			
Payables	315	—	—
<b>Total financial liabilities</b>	<b>315</b>	<b>—</b>	<b>—</b>
		—	—
<b>Net liquidity surplus</b>	<b>16,971</b>	<b>—</b>	<b>—</b>

Other receivables excludes prepayments and payables excludes deferred income.

**13. Directors' remuneration**

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

#### 14. 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 (collectively 'Pacific Investments') were considered to be related parties as they held significant influence over the Group by virtue of holding more than 10% of the issued share capital of the Group. Following a disposal by Pacific Investments in March 2017, they now hold less than 10% and are therefore no longer considered a related party.

The Company entered into the following transactions with related parties:

Related party	Type of transaction	Transaction amount		Balance owed/(owing)	
		30 June 2017 £'000	30 June 2016 £'000	30 June 2017 £'000	30 June 2016 £'000
Punter Southall Group	Admin expense	60	66	(224)	(35)
	Balances	–	–	–	(22)
River and Mercantile Group undertakings	Inter-company balances	–	–	2,836	9,651
	Group cost sharing	2,983	3,382	–	–
	Dividends received	16,550	13,749	–	–

#### Key management personnel compensation

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

#### 15. Other information

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

A second interim dividend in respect of the year of 8.1p per share has been declared, of which 2.8p is a special dividend relating to net performance fees. The Directors have proposed a final dividend in respect of the year of 6.0p per share, of which 2.8p is a special dividend relating to net performance fees. Based upon the number of shares held by the EBT at the year-end (upon which dividends are waived), the expected total payments are £6.5m and £4.8m 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

**ABI** – Association of British Insurers  
**ACD** – Authorised corporate director  
**AGM** – Annual general meeting  
**AUA** – Assets under advice  
**AUM** – Assets under management  
**CAGR** – Compound annual growth rate  
**CGU** – Cash generating unit  
**CMA** – Competition and Markets Authority  
**DAA** – Dynamic asset allocation  
**DB** – Defined benefit  
**DC** – Defined contribution  
**DEP** – Deferred equity plan  
**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  
**ILC** – Industrial life cycle  
**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  
**LGPS** – Local government pension scheme  
**LTIP** – Long-term incentive plan  
**MiFIR** – Markets in Financial Investments Regulation  
**MiFID** – Markets in Financial Instruments Directive  
**NAV** – Net asset value  
**NUM** – Notional under management  
**PPF** – Pension Protection Fund, a statutory fund established under the provisions of the Pensions Act 2004  
**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 attribution  
**SIPP** – Self-invested pension plan  
**TIGS** – Total Investment Governance Solution  
**TSA** – Transitional service agreement  
**TSR** – Total shareholder return  
**UCITS** – Undertakings for the collective investment of transferable securities  
**WACC** – Weighted average cost of capital  
**YoY** – Year-on-year

**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.

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

**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.

**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.



## SHAREHOLDER INFORMATION AND ADVISORS

**Company number**  
04035248

**Registered office**  
11 Strand  
London  
WC2N 5HR

Tel: 020 3327 5100

**Company Secretary**  
Sally Buckmaster

**Website**  
[www.riverandmercantile.com](http://www.riverandmercantile.com)

**Annual General Meeting**  
8 December 2017 at 2pm  
11 Strand  
London  
WC2N 5HR

**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](http://www.shareview.co.uk) or in writing.

**Final dividend for the financial year ended 30 June 2017**

**Amount**  
6.0 pence per ordinary share

**Ex-dividend date**  
23 November 2017

**Record date**  
24 November 2017

**Payment date**  
15 December 2017

**Registrars**  
Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

**Shareholder helpline**  
0371 384 2030  
(+44 121 415 7047)

[www.shareview.co.uk](http://www.shareview.co.uk)

**Auditors**  
BDO LLP  
55 Baker Street  
London  
W1U 7EU

**Corporate broker and advisor**  
Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London  
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](http://www.londonstockexchange.com).

**Bloomberg**  
0994474D:LN

**ISIN**  
GB00BLZH7X42

**SEDOL code**  
BLZH7X4

**Ticker**  
RIV

RIVER AND MERCANTILE  
GROUP

[www.riverandmercantile.com](http://www.riverandmercantile.com)

