

# CLIENT FOCUSED OUTCOME ORIENTATED



# River and Mercantile is a client focused, outcome orientated advisory and investment solutions business. We offer 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 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;
- US pensions (DB and DC);
- Australia and New Zealand pensions;
- Insurance;
- Wholesale financial intermediaries; and
- Strategic relationships.

We have a core set of beliefs:

- We are a broad based asset management, investment solutions and actuarial specialist successfully interpreting the complexities of investment and financial liabilities;
- We are focused on meeting our clients' needs through highly effective and innovative strategies;
- We have created an environment that attracts and motivates great people to serve our clients well; and
- We work with our clients as partners to ensure their needs, and the potential solutions to them, are fully understood.

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### Forward looking statements

This Annual Report contains forward looking statements with respect to the financial condition, 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.

## 2018 HIGHLIGHTS

We continue to perform well, with strengthened distribution resource and corporate processes, a reinforced culture, and new strategies added to support growth.

### FEE EARNING AUM/NUM

£33.8BN ▲ 9%

### STATUTORY PROFIT AFTER TAX

£15.1M ▲ 13%

### NET MANAGEMENT AND ADVISORY FEES

£64.2M ▲ 15%

### EARNINGS PER SHARE

18.8P ▲ 14%

Statutory

### ADJUSTED UNDERLYING PRE-TAX MARGIN<sup>1</sup>

25% ▼ 4%  
Down from 29%

21.9P ▼ 5%

Adjusted

16.1P ▲ 1%

Adjusted underlying

### PERFORMANCE FEES

£10.6M ▼ 16%

### TOTAL DIVIDEND FOR THE YEAR<sup>2</sup>

18.6P ▼ 6%

1. Adjusted underlying pre-tax margin represents net management and advisory fees less associated remuneration, administrative expenses, amortisation of software, depreciation, and finance income and expense; divided by net management and advisory fees.

2. Including 5.5 pence proposed final dividend.

## CHAIRMAN'S STATEMENT

# PROGRESS MADE DURING A CHALLENGING YEAR



Jonathan Dawson  
Chairman of the Board

## This is the first Annual Report I am presenting to you since my appointment to the Board as Chairman on 1 October 2017.

I am most grateful to Peter Warry who took over as acting Chairman following the death of Paul Bradshaw in early 2017.

The last year has been marked by significant political changes, increased economic and market volatility, and it has certainly been a challenging one for investment managers. In the UK, the divisive political debate around the future relationship – economic, political, defence and security – between the UK and the rest of the EU is unresolved, with our own politicians seemingly incapable of achieving a consensus among themselves. Elsewhere, the risks of a possible trade war involving the US, Europe and China remain high. Discerning the outlook for 2019 is more than normally difficult although with such uncertainty has also come opportunities for asset managers with the products, strategies and approach to risk that are fit for the times.

Against that backdrop, the Group's performance in the past year has been positive.

We grew our net management and advisory fee revenue by 15%, although stronger growth in the first half of the year was tempered somewhat by the impact on assets following the dismissal of a portfolio manager. We have also seen the impact on margin from regulatory changes such as MiFID II as well as the significant level of investment that we have made in infrastructure and new initiatives. As a result, statutory profit before tax increased by 13% but adjusted underlying profit before tax fell by 2%. We have continued our policy of returning a high level of our adjusted profit to shareholders, with total dividends this year declared and proposed of 18.6 pence, or 85% of adjusted profit (2017: 19.7 pence, 86%).

The Group has experienced a number of more significant events during the year:

- First, the Competition and Markets Authority (CMA) published its provisional decisions following its extensive review into the investment consulting market. We believe that on balance the recommendations are positive for the Group, most notably those on mandatory tendering, fuller Financial Conduct Authority (FCA) regulation, and better performance and fee reporting;
- Second, the FCA has continued with its investigation into the competition matter involving the Group's subsidiary RAMAM. We have fully cooperated with the FCA during the investigation and, as already announced, we have been advised that the penalty that might be imposed on the Group if an infringement decision were reached, should not exceed £109,000; and
- Third, as mentioned above, we took the decision to dismiss one of our portfolio managers for a breach of our conduct rules. This action attracted media comment and led to some outflows of money from funds with which the individual in question was associated. I am glad to say, however, that they were less overall than we had prepared for. This reflects a generally positive reaction to our taking decisive action to protect our culture, but also was in no small part due to the great efforts made by our senior equities team to ensure that our clients were fully supported during this period, and I am most grateful for their commitment.

### TOTAL DIVIDENDS

# 18.6p

### ADJUSTED PROFIT DISTRIBUTED

# 85%

## "I believe that the Group has continued to make good progress."

We have used this experience to remind all our staff of the importance of keeping a strong culture of compliance, openness, adherence to our conduct rules and team spirit. I firmly believe that companies that cannot exhibit such an approach will be unable to survive and prosper. I equally believe, however, that the response to this incident has allowed us to reinforce the strengths of the Group, summed up in our commitment to providing the best service to clients that we possibly can, and upholding the highest levels of corporate conduct.

Whilst the culture of a company is a broadly spread attribute, it has to start somewhere. It is the role of the Board to set the required tone, to demonstrate the appropriate behaviour, to ensure that the interests of our clients are our first priority and to continually reinforce this message. I see one of my principal roles as Chairman as being to focus on the culture of the Board and of the Group as a whole, and I am happy to report that my colleagues on the Board and in the senior management of the Group fully grasp this, and understand its importance and how we are performing.

There has been a risk, of which the Board was conscious, that the distraction from external events and pressures might lead to a loss of focus on our investment performance. I am pleased to say that our performance has remained robust in all key categories. We have in all but one of our strategies, where investment outperformance is the objective, been ahead of benchmarks since inception. Our fiduciary offering in particular, has returned around 10% per annum since its inception in 2004. This is a very good result and is market leading amongst fiduciary managers – something which will be of great importance as the CMA's transparency changes come into force.

### CORPORATE GOVERNANCE

A number of significant changes in our corporate governance have been made during the year. We have reconstituted the Audit and Risk Committee as two new committees, with separate committee chairs, responsible respectively for Audit and for Risk. Whilst the combined structure served the business well in the period since

IPO, I consider that the disciplines of Audit and of Risk are different, and that addressing them in two separate committees will allow us to provide deeper levels of assurance and risk modelling than hitherto.

This change represents the natural evolution of the management of risk and provides a direction of travel towards the implementation of the Senior Manager and Certification Regime.

John Misselbrook has joined the Board as a Non-Executive Director and as Chair of the Risk Committee. John has extensive experience in the investment industry as a risk and operations specialist and has already made a significant difference to the Board in this capacity. We have also appointed the Group's first dedicated Chief Risk Officer, who joined in August 2018.

Angela Crawford-Ingle (previously Chair of the Audit and Risk Committee) now chairs our Audit Committee and, with the retirement of Peter Warry last November, has been appointed Senior Independent Director. Robin Minter-Kemp continues in his role as Remuneration Committee Chair.

I chair the Group's Nominations Committee but, in line with best practice, I am not a member of the Audit, Risk or Remuneration Committees.

Separately, a number of changes in Executive responsibility have also been made amongst our senior team following a review by Mike Faulkner, our Group CEO. These changes are intended to sharpen client focus and maximise opportunities from closer working across the Group. Critically, the changes will also give Mike the opportunity to allocate more of his time to critical investment research and development.

- First, James Barham has been appointed Deputy Group CEO with overall responsibility for our Solutions and Asset Management businesses, reporting to Mike.
- Second, Kevin Hayes has taken over responsibility for running our Solutions business, reporting to James, whilst retaining his Board responsibilities as Chief Financial Officer.

- Third, Jack Berry has moved to a new role within the Group, focussing on clients with complex investment requirements.

We have also looked at the overall composition of the Board and the numbers of Executive Directors and Non-Executive Directors. From 1 July 2019 River and Mercantile will no longer be exempt (as a smaller company) from the full requirements of the Corporate Governance Code on board composition and we will therefore need to move to a position where at least half of the Board, excluding the Chair, are independent Non-Executive Directors. At present, apart from my position as Chair, we have four Executive Directors, three independent Non-Executive Directors, and one Non-Executive Director representing a significant shareholder who is therefore not considered independent. We will be addressing this, together with wider diversity improvements, during the year and I will report further in due course.

### OUTLOOK

Overall, despite the challenges of the past year, I believe that the Group has continued to make good progress and is very well placed to exploit a number of exciting opportunities:

- At home in our core business, with the resolution of the CMA market investigation in a favourable fashion for our fiduciary business and the demand we see for our derivatives offering;
- Overseas, with the enhancement of our presence in the US and Australia; and
- In our continuing new product development into areas such as Global Macro (now launched) and Emerging Market Absolute Return.

The Board therefore looks to the future with continuing confidence.

**Jonathan Dawson**  
Chairman of the Board



## CHIEF EXECUTIVE'S REVIEW

# WE CONTINUE TO PERFORM WELL AND DELIVER ON CLIENT OUTCOMES



**Mike Faulkner**  
Chief Executive Officer

**I would like to take a slightly different approach in my statement this year. We are aware of a number of questions that commonly arise for all companies from investors.**

I would therefore like to start with an overview of the Group that I hope addresses the most common questions. My hope is that this overview will also give readers useful context for the rest of my report, which will cover:

- Progress and issues during the year to June 2018;
- Market outlook; and
- New products and research and development.

### GROWTH IN NET MANAGEMENT AND ADVISORY FEES

# 15%

#### AN OVERVIEW OF THE GROUP

River and Mercantile is focused on helping clients meet their specific desired investment outcomes, often liability-related. We believe this focus on clients is a cultural differentiator in itself. However, our ability to bring together macro, security selection and derivative skills to solve problems in an integrated way is something that few firms can do. Our view is that it is difficult to solve client problems well without all of these skills.

I believe we are also differentiated in the way we understand client needs. If the approach to helping clients understand their needs is purely technical, you get a technical answer. But some needs are not technical – they are softer, and may relate to governance, attitudes and beliefs. Solving a client's needs effectively requires solving them all, not just the technical, and we are good at that.

We measure this based on delivery of client outcomes first and foremost, and its effect on client satisfaction and retention (or low attrition).

For shareholders, we look at the three to five year performance of the business. For a business like ours there is always a lot going on in any individual year, particularly as we invest in new initiatives. This doesn't change the fact that the direction of travel is positive. Finally, we are really interested in the speed with which our people develop, particularly our junior and mid-level people, as they are the long term future of the business.

This client focus, and problem solving purpose and philosophy hasn't changed since the IPO, nor is it likely to change (I certainly can't see a circumstance where it would). It influences all decisions we take at the Board and as an Executive, particularly in what we decide not to do. A great investment idea will never become a product or strategy if it doesn't help solve a client problem.

Our purpose is also embedded throughout the Group and drives how we recruit, engage and reward our people (including how we identify Board members). Our commitment to our people is supported by our recruitment during the year of Ian Icceton, previously HR director at Network Rail, to take responsibility for all of our people-related activities. Incidentally, as a trustee of their pension, he was previously a client which illustrates and reinforces some of the points made earlier.

Environmental and societal impact is an issue on many investors' minds. Whilst the products we offer incorporate ESG to varying degrees, here I focus on the Group itself. We don't have a significant environmental impact, we don't engage in a range of questionable societal activities and we meet all of our tax obligations. So the 'cost' to society of how we do what we do is, to all intents and purposes, negligible to zero. Therefore the real issue in terms of our positive or negative impact is in the effect of what we do, rather than how we do it.

In general, as long as we are meeting or exceeding our client outcomes, I would argue our effect on society is positive. Given the majority of what we do relates to members of pension schemes (or individual investors who are clients of wholesale firms), our success is, by definition, improving their financial circumstances and therefore a societal good. More importantly, given the facts, I think the beneficiaries would see it that way too. Our societal contract, or licence to operate, is essentially that – 'improve my financial circumstances within the bounds of good conduct and I'll be happy'.

Now, in theory one could argue that if we are doing this for employees of a firm that impacts society negatively, then is that improving the firm's situation too and creating a negative impact? Possibly. But I don't think that diminishes our responsibility to help past and present employees, most of whom don't control firm decisions, be in a better financial situation. Could anyone really argue that those employees don't deserve help or don't deserve a sound pension because of the firm for which they worked?

I therefore believe our biggest negative societally, would be a failure to do our job well. The impact of this is clearly broad and bad – clients are less financially secure than they expected to be and someone has to pay for that, be it a sponsoring firm or an individual through working for longer and just having less money on which to live. From a personal perspective, this is the negative that I worry about more than any other by some margin. It is why, if we find that we are doing something that is not succeeding, we fix it or stop. I think that's the only way for us to maintain our licence to operate.

Finally, like all firms, it is important to set priorities. Ours for the next few years can be summarised in four themes:

## “We continued to deliver strongly to those outcomes our clients expect of us.”

- We need, like all firms, to continue strengthening our corporate risk and operational processes in light of greater regulatory engagement and more complex client requirements;
- We are seeking to diversify our business more effectively by client, asset and strategy type;
- We are seeking to grow and have invested to do so, albeit in a focused way; and
- We intend to continue institutionalising investment in R&D more effectively.

I now move to progress made during the year (along with issues we have faced).

### PROGRESS AND ISSUES DURING THE YEAR

This year has involved a combination of mainly good progress but also some issues we have had to address. I want to start first with the issues, and then move on to how the year has gone.

#### ISSUES WE HAVE FACED

We have faced a number of these, about which most investors will be aware.

Firstly, some months ago we dismissed a portfolio manager. I addressed this in my interim statement, so do not intend to go over that ground again. However, the benefit of some months having passed means we have a clearer idea of the effect on our business. We obviously expected losses in AUM, not least because of their profile, but retention has been towards the top end of our expectations.

I would like to take the opportunity to thank the many people who offered us their support through this period. Decisions like these are inevitably hard to make and we are grateful to all those who told us they believed we were doing exactly the right thing.

Secondly, we announced in July we were significantly reducing the provision for a competition matter in relation to which we were engaging with the FCA. This is ongoing but the effect on the Group is now expected to be of a much smaller order of magnitude than some might have worried it could be. We believe this reflects, at least in part, the seriousness with which we take our relationship with our regulator and the importance of dealing properly with issues that emerge.

Thirdly, the CMA has issued in July 2018 a report on its provisional findings following its review of the investment consulting and fiduciary management industry. It is fair to say that these findings are more balanced than some industry participants feared they might be (we did not share these concerns).

We have already issued a statement supporting the findings. In that statement I identified that we would have gone even further than the CMA in relation to FCA regulation, and required full regulation for all investment consultants and those involved in advising on fiduciary management appointments. We would be surprised if this didn't end up being a requirement for investment consultants at least, because it is logical that this should be the case. Think about this from the perspective of a pension scheme beneficiary – why is the standard of care different when someone is advising on where to put my money, than when someone is directing it? The money still ends up somewhere, and whether the beneficiary can retire well is driven by this decision.

In my view, the duty of care on the one providing the advice is identical to that of the fiduciary manager who directs, if considered from the perspective of the beneficiary's outcome. Hence, both should be subjected to the same standard of regulation and that is why we have voluntarily adopted it in our Advisory division since its inception in 2001.

Collectively, these issues appear to have been clouds hanging over our firm that have now essentially been removed as far as investors are concerned. We hope they will now look beyond these issues and re-focus on the underlying strengths of the firm.

#### PROGRESS DURING THE YEAR

Starting with the most important factor, investment performance – we continue to deliver strongly to those outcomes our clients expect of us and I cover below the outcomes of our most significant strategies. For a firm focused on client outcomes, this is a critical measure.

#### DB Fiduciary

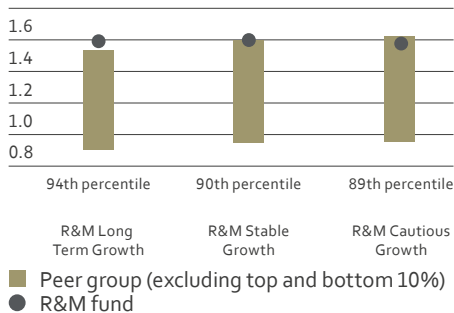
TIGS, our offering in this area, has delivered 2.5% above its benchmark since inception in 2004 (the longest track record in the UK), and in doing so has given our clients a meaningfully higher funding level than the typical scheme.

## CHIEF EXECUTIVE'S REVIEW CONTINUED

### DC Fiduciary

In the table below, we show the performance of our DC fiduciary management strategies that have been running live for nearly seven years, against similar strategies in the industry. As can be seen, despite an underperformance over the year against demanding, member outcome-driven benchmarks, longer-term investment performance is very close to the top which translates to strong member outcomes over this period relative to our peers. The underperformance in the year was a result of broadly flat or negative markets in the first quarter of the year. In this environment, targets in excess of inflation are challenging.

### R&M fund vs peer group: Risk-adjusted return



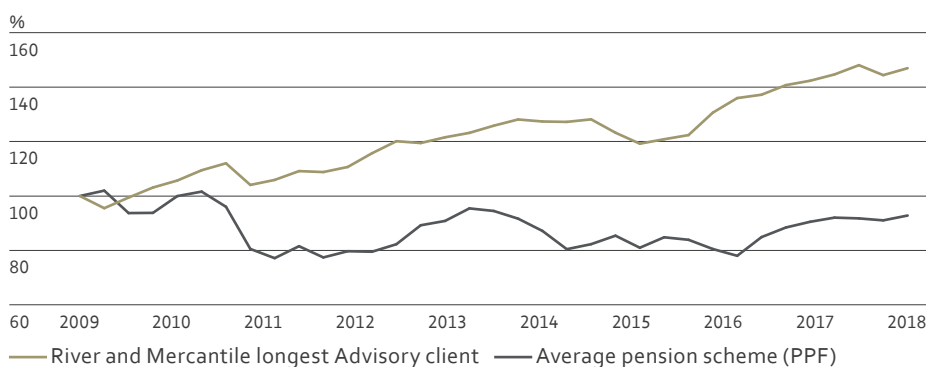
### Structured equity

Our derivatives capability allows clients to put equity-like structures in place, providing downside protection and other features which improve outcomes, giving more certainty to returns and generally protecting against market drawdowns. In this way we 'win by not losing'. The different structures we put in place depend on our clients objectives, for example they may also want to deliver returns in markets which are range-bound.

### Advisory

As an investment partner, as well on a fully delegated basis with Fiduciary Management, we can be engaged to provide investment advice. In our Advisory division, we have continued to see significant improvements in funding levels during the year, which comes on top of strong success in recent years. The chart below shows our longest standing client's funding level in recent years, compared with the typical UK pension scheme result as identified by the PPF (Pension Protection Fund).

### Change in funding level





## Equities

Like structured equity, our ILC and PVT teams generally work as part of a broader portfolio, giving clients access to equity market exposure with high-active management giving rise to outperformance over the long term, as evidenced by all of our Equities funds being above benchmark since inception. I show the largest funds below:

Fund	Relative performance since inception	Inception date
UK Income	1.4%	Feb-09
UK Smaller Companies	6.6%	Nov-06
UK Long Term Recovery	6.0%	Jul-08
World Recovery	5.0%	Mar-13
UK High Alpha	2.7%	Nov-06
Global High Alpha	4.1%	Dec-14
ILC – Global EM	0.6%	Dec-18

## Multi-asset

As a newer part of our offering, both the Dynamic Asset Allocation (DAA) Fund and Global Macro Fund (discussed on page 9) have delivered impressive returns since launch, with DAA 5% ahead of benchmark since inception and Global Macro up 8% since it was fully seeded by the Group in March 2018.

## Client attrition

As well as our engagement approach, this investment performance is a key reason our institutional attrition rate has again been low. The table below shows our regretted institutional attrition (RIA) rate in recent years, split by individual business line.

	2018	2017	2016
Fiduciary Management	0.2%	1%	4%
Derivative Solutions	3% <sup>1</sup>	4%	4%
Equity Solutions – Institutional	0.3%	12%	0.5%
Overall	3% <sup>1</sup>	3%	4%

<sup>1</sup> In the current year, the KPI figure includes a large single derivatives mandate which matured; and whilst it has not been replaced, we remain appointed. I have excluded this amount in my analysis due to us staying appointed, but the strict definition of the KPI includes it.

For more details on how the RIA rate is calculated, see the financial review.

We have always been focused on delivering first on client outcomes, in the belief that this would lead to much higher retention levels and greater stability for the business to continue operating. This is a critical element of our strategy and clearly remains true. We are successful at it because culturally our people care about succeeding for our clients.

## DISTRIBUTION

The Group has grown AUM by 9% this year. This is certainly behind some of our competitors whose books are more equity focused, and that's fine. If investors want beta focused businesses, there will always be better choices than us. Our focus is on stable growth through time and in building a robust, diversified business.

In previous reports, I have identified that at this stage in the cycle I would expect equities and derivatives to do well, and that advisory and fiduciary would be more muted. So it has proved, and growth headlines are as follows:

- Our Equities business has grown management fee revenue at 41% during the year. This is after losses from a portfolio manager's departure;
- Our Derivatives business has grown revenue at 8% during the year. This is after the maturity of a large structured equity mandate which did its job but where the hedge has not yet been put back on. These mandates not rolling is relatively rare, and it may well be that it rolls back on at some point (we remain appointed by the client); and
- Our Fiduciary and Advisory businesses have been relatively flat for the year.

While my expectations have been that the growth of the fiduciary and advisory businesses would be more modest, it is clear they have been particularly impacted by the market's reaction to the CMA review.

Opportunities to pitch during this year have been far more limited than they have been historically and we believe that a number of potential clients and intermediaries have put reviews on hold until the outcome is resolved. Now the CMA's position is clearer, it seems likely that at some point normal tendering opportunities should resume, along with a much more significant number of competitive tenders that should emerge as a result of the CMA's guidance.

When this emerges is the question, but I think it is more likely that tendering opportunities should start to rise in the coming months and be much more significant by the first half of calendar year 2019. The good news is that the average number of tendering opportunities in the next five years should be much higher than in the previous five (as it seems quite a lot of mandates may have been appointed non-competitively).

## CHIEF EXECUTIVE'S REVIEW CONTINUED

We are still comfortable that our belief in a net management and advisory fee revenue growth rate of at least 12% per annum remains appropriate.

We have also during the year announced two developments aimed at accelerating distribution:

- Tim Horan has been appointed as MD of our Australian business, in order to drive faster development of a business where we already manage around £0.6bn; and
- Tom Cassara and Dave Goldblum have been appointed in New York to lead the development of our US Solutions business, particularly into larger clients.

We are very excited about these appointments and believe they will be strongly positive for our growth plans.

We also see good opportunities in the development of new strategies, and I address this more fully in a later section. In summary, we have successfully launched the Global Macro Fund, as we had previously indicated, and are in the process of launching a platform-led structured equity solution (for investors to be able to access structured equity on a platform). Both of these are significant moves for us and should allow us to distribute to clients that we may not have previously been able to serve.

### SUMMARY OF PROGRESS/ISSUES DURING THE YEAR

The Group continues to perform well for clients. Our Equities and Derivatives businesses have performed as we expected. Our Advisory and Fiduciary Management lines have been more muted as expected, exacerbated by the CMA review into the industry. We expect in the coming years that opportunities to grow Fiduciary Management in particular should strengthen considerably.

We have strengthened our distribution resource considerably in the US and in Australia, as markets we have previously identified as key for us. We continue to support the growth in the business through the launch of new strategies that help clients achieve their desired outcomes.

### MARKET OUTLOOK

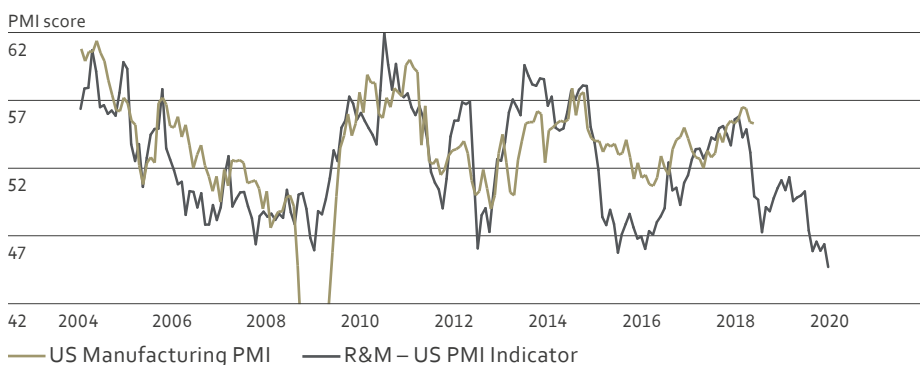
In communicating to clients and investors, we generally tend to use a four-phase approach to thinking about where we are in the market cycle. These four phases are as follows:

- **Generalised upward re-rating** – most classes rise at the same time. This phase always occurs from markets being cheap;
- **Stable conditions** – economically everything is at least OK, credit conditions are generally supportive, and markets are neither very cheap nor very expensive;
- **Apprehension** – markets are expensive, however conditions are still generally supportive, so markets tend to keep on rising; and
- **Downturn** – markets fall, or get ready to do so, and this is generally coupled with worsening credit conditions and/or a worsening economic outlook.

During February 2018, our four-phase process indicated a move from late apprehension into a downturn. A large part of this was because credit conditions worsened.

In addition, our forward indicators of Purchasing Managers Indices (PMIs, leading economic indicators) suggest meaningful falls from here, which would generally imply a downturn in risk markets and probably falling bond yields. The chart below displays US PMIs and our indicator. As you can see, it has been a fairly reliable predictor of actual results, and its outlook is negative.

### US PMI outlook



This year we have seen more volatile markets. We have become more defensive in multi-asset mandates and in our advice to pension schemes.

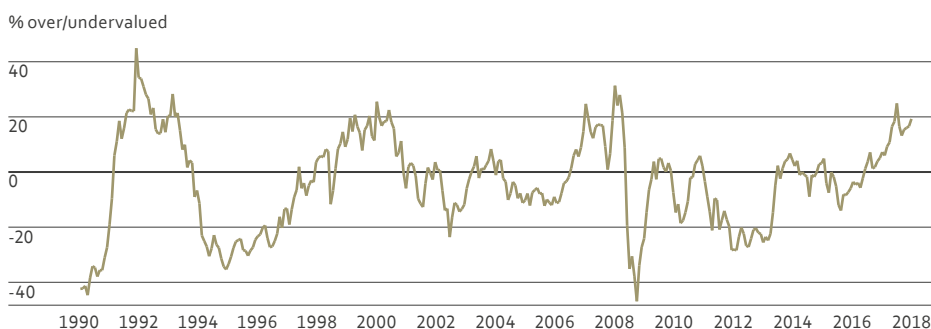
What is perhaps more interesting is to think through from here what the potential outcomes could be in terms of where we land, assuming we are in fact in a downturn. The most interesting issue here for us is whether we land into an upward re-rating, or into stable conditions. This is important because it influences which markets should respond and how we market the various strategies we have.

In an upward re-rating large cap developed equities should do well. Conversely, if we land in stable conditions, small cap (particularly in US/global form) should work better, and emerging markets should really come into their own.

Our view is currently that it is more likely we will land in stable conditions. This is because equity markets would have to fall 30%+ to put us back into an upward re-rating.

The chart below shows how overvalued markets currently are, based on our internal model of fair value.

### Valuations are a long way from being 'cheap'



Source: R&M proprietary US equity market valuation analysis.

But these sorts of falls only generally tend to happen when we have a significant economic downturn. The chart to the right shows the relationship between market and economic drawdowns to illustrate this point.

There are plenty of risks around, even with falling PMIs, but it is hard currently to see this becoming such an economic problem that we move into recession (barring some financial crisis that emerges, which can never be dismissed completely).

Similarly, we'd need to see much higher credit spreads to justify an upward re-rating, and currently it seems hard to see how that would happen, unless we have an economic downturn (which really means a recession).

As a result, we are reflecting this in our product development, and it is to this I turn next.

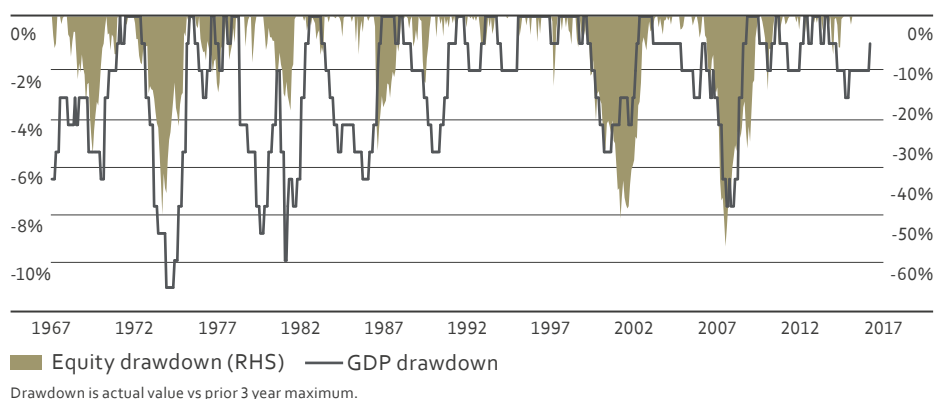
### NEW PRODUCTS AND RESEARCH AND DEVELOPMENT

In my last annual statement, I identified that the launch of global macro, international high alpha and international small cap strategies would be part of the growth strategy for the next five years (now the next four). We launched the Global Macro Fund on 1 March 2018 with corporate seed money, but have not yet launched the other strategies. The launch of international high alpha is really only dependent on matching a US launch of a pooled vehicle with seeding money (and therefore will happen when we have appropriate client support). The launch (or not) of the other two strategies, coupled with our pipeline of new strategies, is more involved. It is therefore worth me explaining the thinking.

Shareholders would, in a perfect world, like us to win, grow and retain assets from clients, and in doing so charge an appropriate fee from which we can generate a meaningful profit margin. There are some simple influences on the 'win, grow and retain' part of this statement. For us to retain the assets, the investment strategy will need to perform well and also have long term strategic use. For it to grow, it will need to produce meaningful positive returns. Obviously the strategy will need to have enough capacity in it to have a meaningful impact on the overall business.

I have spoken about these issues in the past as part of our strategic focus – we want to offer strategies with relatively high revenue capacity, that offer meaningful positive returns, and that are strategically useful for clients so they might hold them for the long term. On the last point, our client outcome-led approach gives us particular insight into the reasons that clients tend to hold strategies for long periods. This insight is one of the reasons our institutional attrition rate is so low.

### Equity drawdown



The 'win' part of the above we think about in a slightly different way. Obviously we consider whether we have the skills to offer a strategy, and the competitive environment within which we are engaging. But specifically for us there are three additional issues we consider:

- **Timing of launch.** Practically, we all know that starting investment strategies well is helpful in building up a track record that clients consider to be appropriate enough to buy. Hence it can be helpful to time the launch so that the subsequent environment is positive for the track record;
- **Conditions for client engagement.** We also seek to time the launch such that clients will have a need for the strategy at the time it is available. We are seeking to avoid the circumstance where we launch a great strategy (in theory) but there is no demand or motivation to buy it, because clients have other problems to worry about. Selling long-only equity strategies in the period where clients were more focused on alternatives is a good example in recent years; and
- **More than one strategic reason to buy.** While this is not necessarily true for all strategies, it certainly helps, particularly for very high capacity strategies. Building strategies that can be used by different clients in different ways is a particular advantage, as it gives us multiple sources of potential demand.

The table below shows how we consider the new strategies stack up against our criteria:

Criteria	Global Macro	International Small Cap	Platform-led Structured Equity	EMAR
Meaningful performance levels?	Yes	Yes	Yes	Yes
Multiple strategic uses?	Yes	Yes (but less than others)	Yes	Yes
High potential asset/revenue capacity	Very high	Decent (around £20–30m of revenue)	Decent (£20m+ of revenue if successful)	Good (£50m+ of revenue at capacity)
Current conditions positive for performance?	Yes	Uncertain	Yes	Yes
Conditions positive for client engagement?	Yes	No	Yes	No

It's worth looking at the Global Macro Fund and international small cap, along with two other new products we are bringing on line, against these criteria. This should illustrate well how we think about R&D and how it integrates with client need and the growth in the business.

The two other products are platform-led structured equity and Emerging Markets Absolute Return (EMAR). The first involves us making structured equity available, for the first time, on an institutional platform. This will allow DB schemes to access structured equity without the hassle of putting in place their own documentation. They will still be able to tailor the design to their own particular needs.

The second strategy – EMAR – will do two things. First, it combines the country allocation emerging market process we have been running within Fiduciary Management for some time, with the stock selection of the ILC team we brought in from Credit Suisse around a year ago. Second, it operates a dynamic market hedge, which aims to reduce exposure to markets in a downturn to preserve value.

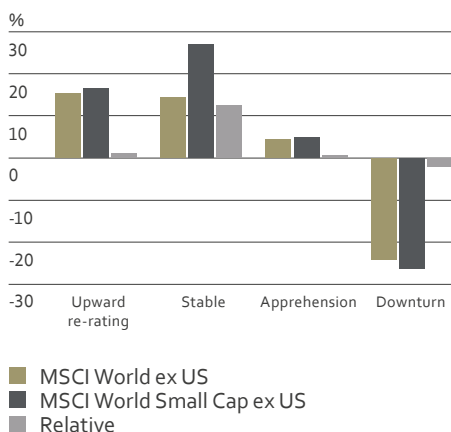
## CHIEF EXECUTIVE’S REVIEW CONTINUED

All strategies, as they should, satisfy the strategic criteria. But they vary in relation to their attractiveness in current conditions. We took the view that the Global Macro Fund, which is specifically engineered to defend downturns, should be launching close to a turning point. So it proved, and the track record of the strategy subsequently has borne that out. We also know there is currently meaningful demand for macro strategies in UCITS form, hence the logic for the launch which occurred earlier this year.

Similarly for platform-led structured equity – we have known in our Fiduciary Management and Advisory businesses for some time that if it were possible to put structured equity in platform form, it would solve a key need. Our Derivatives team has done a great job in working through the technicalities of how to do this, and we expect to be in a position to launch this in the coming financial year.

For International Small Cap, the chart below shows how different strategies in absolute terms tend to perform in different environments. What is interesting about this is the strength of small cap returns in stable conditions, but also the potential weakness in a downturn. This is therefore probably not the best environment to be launching a small cap strategy from the perspective of client demand. It is also hard to call whether a market downturn will be favourable for added value or not.

Average annual performance during market phase



EMAR is perhaps the most complex strategy for which to time a launch. On the one hand, its performance is likely to be (and on paper has been) very strong during a downturn in relative and absolute terms. On the other, we are doubtful there will be significant demand for an EM strategy until we emerge from a downturn. People want EM exposure, but they realise the benefits of buying it with a strategy that seeks to take out some of the downside. Hence we are taking the view that launching it part way through the downturn (towards the end of calendar year 2018) is the right approach. This gives the strategy a chance to build up some track record, while at the same time positioning it closer to the point at which we would expect demand to emerge.

Hopefully this gives you as an investor in the Group some insight into, and confidence in, the logic we are applying to efficiently use resources to bring new strategies on line.

### RESEARCH AND DEVELOPMENT

It is probably now worth me spending some time on how we organise our R&D efforts. Whilst this is occurring across the Group in every business area, we have during the year created a team focused on driving forward our macro thinking and how it can be used to create new strategies and improve existing ones. Our research focus is on the creation of new intellectual property that can be used to generate significant absolute returns.

The EMAR strategy emerged from this thinking. It was obvious from the start that, if it were possible to build something that combined a strong source of added value within emerging markets, with a dynamic hedge, this should produce a great strategy. We just didn’t know whether it could be done – so our R&D process focused on trying to answer this question. The result is a strategy available for launch in the coming months.

Much of our R&D works this way – posing ‘ideal’ questions and trying to determine whether it can be done. In practice, the way we are running this is analogous to the famous ‘skunkworks’. We draw people from anywhere in the business to work on big problems, where the solution creates potentially large added value. We currently have a range of such projects under way, and will keep you updated as these create meaningful developments for the firm and its clients.

### OVERALL SUMMARY

We have had a decent year in the Group and moved past some issues we faced. We continue to perform well and deliver on client outcomes across all lines, and the Group continues to experience low attrition and high client satisfaction. We have strengthened our distribution resource in markets we have previously identified as key and have added new strategies to support growth.

I think we are positioned well for where we believe we are in the market cycle, and this is informing how we approach product launches. We have continued during the year to strengthen our corporate processes and reinforce our culture, which is critical for us to continue delivering value to clients and shareholders.

I remain of the view that we are well positioned to make good progress towards our strategic objectives.

**Mike Faulkner**  
Chief Executive Officer

**“I remain of the view that we are well positioned to make good progress towards our strategic objectives.”**



## INVESTMENT PERFORMANCE

Our products aim to add meaningful value for clients, in a way that makes a significant difference to their circumstances.

Annualised investment performance by investment strategy	AUM/NUM £bn Jun-18	Estimated Capacity £bn	1 Year (%)		3 Years (% p.a.)		5 Years (% p.a.)		Since inception (% p.a.)		Date
			Abs.	Rel.	Abs.	Rel.	Abs.	Rel.	Abs.	Rel.	
TIGS			2.6%	0.2%	10.6%	3.0%	11.3%	2.9%	10.1%	2.5%	Jan-04
PIL Stable Growth Fund	9.4	30.0	3.4%	(0.1)%	7.1%	3.6%	7.2%	3.7%	8.4%	4.6%	Dec-08
Inflation Plus Fund			3.5%	0.1%	7.2%	4.4%	6.8%	4.4%	6.9%	3.9%	Mar-04
Fiduciary DC <sup>1</sup>	0.2		3.5%	(2.6)%	7.9%	2.4%	8.4%	3.2%	8.8%	3.4%	Oct-11
Dynamic Asset Allocation Fund	0.2	10.0	4.3%	3.9%	6.4%	5.9%	n/a	n/a	5.8%	5.3%	Sep-14
Global Macro	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9.8%	7.6%	Mar-18 <sup>2</sup>
Fiduciary Insurance	0.2	n/a	(0.0)%	n/a	n/a	n/a	n/a	n/a	0.8%	n/a	Apr-16
US Fiduciary	0.6	n/a	6.9%	(0.2)%	5.7%	(0.5)%	n/a	n/a	6.0%	(0.6)%	Aug-13
<b>Total Fiduciary AUM</b>	<b>10.6</b>	<b>40</b>									
UK Income	0.3	2.0	8.4%	(0.6)%	8.6%	(1.0)%	9.8%	0.9%	13.4%	1.4%	Feb-09
UK Smaller Companies	0.6	0.8	15.4%	6.6%	15.2%	4.8%	19.4%	8.3%	13.5%	6.6%	Nov-06
UK Long Term Recovery	0.3	0.2	13.9%	4.9%	13.5%	3.9%	15.2%	6.3%	14.5%	6.0%	Jul-08
World Recovery	0.5	1.0	7.9%	(1.1)%	15.4%	0.7%	15.9%	3.5%	16.9%	5.0%	Mar-13
World Recovery Focus	0.2	1.0	16.3%	5.5%	11.8%	3.6%	13.3%	3.9%	18.4%	8.6%	Feb-12
UK High Alpha	0.3	1.0	13.2%	4.2%	11.7%	2.1%	13.3%	4.4%	9.1%	2.7%	Nov-06
UK Core Segregated	0.2	1.0	11.1%	2.1%	10.2%	0.6%	10.0%	1.2%	9.9%	1.7%	Nov-10
UK Dynamic Equity	0.1	1.0	11.1%	2.1%	11.7%	2.1%	13.0%	4.2%	8.1%	2.1%	Mar-07
UK Equity Micro Cap Investment Company	0.1	0.1	30.3%	21.5%	30.3%	20.0%	n/a	n/a	29.2%	17.3%	Dec-14
Global High Alpha <sup>1</sup>	0.1	7.0	10.8%	1.8%	17.8%	3.1%	n/a	n/a	17.0%	4.1%	Dec-14
Segregated Mandates	1.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ILC – Global EM	0.2	3.5	6.1%	(2.1)%	4.9%	(0.7)%	5.3%	0.3%	4.1%	0.6%	Dec-18
ILC – Small/Mid Cap	0.1	2.0	1.6%	(5.6)%	2.4%	(1.4)%	6.1%	2.4%	4.5%	2.7%	Dec-18
<b>Total Equities AUM</b>	<b>4.6</b>	<b>21</b>									
Structured Equity	3.8	>20					n/a <sup>3</sup>				Dec-05
LDI	14.8	>30									Dec-05
<b>Total Derivatives NUM</b>	<b>18.6</b>	<b>&gt;50</b>									
<b>Total AUM/NUM</b>	<b>33.8</b>	<b>&gt;100</b>									

1. Composite performance.

2. Date of Group seeding following short test-trade period.

3. Derivatives mandates do not target investment outperformance therefore this is not measured.

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 with almost a complete suite of offerings which are performing meaningfully above their respective benchmark.

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. It is this along with excellence in client service recognised in our client satisfaction survey, which distinguishes our business amongst other asset managers.

The information above is disclosed in order to allow shareholders to assess the current performance of our investment strategies. While historical investment performance is not an indicator of future investment performance, the long-term track records of our strategies give shareholders an indication of the sustainability of our investment performance across different investment cycles.

The information regarding the capacity of the strategies gives shareholders an indication of the available capacity in each of the strategies to determine the potential for future growth in AUM and revenues.

All investment performance is shown before the Group's management and performance fees are deducted. This gross of fees basis is chosen as it enables comparison of investment returns to be made across share classes and clients with different fee arrangements. The benchmark and target used to calculate relative performance is also on a gross of fees basis. Accordingly, we believe that the presentation of the gross investment performance allows shareholders to more clearly assess the potential for each of the strategies, independent of the investors' specific contractual fee arrangements.

**BUSINESS MODEL**

**DIVERSIFIED GROWTH ACROSS OUR DIVISIONS**

OVERALL APPROACH TO WHAT WE DO >

HOW WE ARE STRUCTURED >

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 and can solve the need 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.

**PRINCIPAL RISKS**

Our operations are underpinned by our approach to risk management.

 p.34

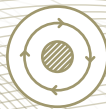
The Group is structured into four divisions:

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 and complementary capabilities which can be applied singly or in combination to deliver a client outcome.

**SOLUTIONS**

led by Kevin Hayes

**FIDUCIARY MANAGEMENT**



**ADVISORY**



**ASSET MANAGEMENT**

led by James Barham

**DERIVATIVE SOLUTIONS**



**EQUITY SOLUTIONS**



HOW WE GENERATE REVENUE



THE RESULTS FOR...

## The Group generates revenue in four main ways:

### MANAGEMENT FEES

In Fiduciary Management, Derivative Solutions and Equity 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 Equity 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 RESULT 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
- Growth adjusted underlying profit margin over time
- Continuing growth in underlying dividends, with additional returns from performance fees.

### GROWTH IN NET MANAGEMENT AND ADVISORY FEES

# 15%

### ADJUSTED UNDERLYING MARGIN

# 25%

### TOTAL DIVIDEND FOR THE YEAR

# 18.6p

### THE RESULT FOR 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.

### OVERALL REMUNERATION RATIO

# 52%

### 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.

### REGRETTED INSTITUTIONAL ATTRITION





# 8%

### GROWTH IN AUM/NUM

# 9%

## 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	WHAT WE DO
<p><b>FIDUCIARY MANAGEMENT</b></p>  <p><b>£10.6bn</b> AUM</p>	<p>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.</p> <p>Our clients are predominantly DB pension schemes through the Total Investment Governance Solution (TIGS) product, but also now encompass DC and Insurance clients.</p>
<p><b>ADVISORY</b></p>  <p><b>&gt;£25bn</b> AUA</p>	<p>The Advisory division provides investment, actuarial and transaction advice to UK DB pension schemes, UK DC pension schemes, US pension schemes and insurance firms.</p> <p>Advice is given either on a retainer basis, or through ad-hoc projects.</p>
<p><b>DERIVATIVE SOLUTIONS</b></p>  <p><b>£18.6bn</b> NUM</p>	<p>River and Mercantile Derivatives offers fully tailored segregated derivative solutions. The segregated approach gives full access to a range of derivative strategies.</p> <p>Our approach allows clients to access:</p> <ul style="list-style-type: none"> <li>– LDI</li> <li>– Synthetic Equity and protection strategies and</li> <li>– Currency hedging.</li> </ul> <p>We believe this approach should be accessible to all pension schemes irrespective of size.</p>
<p><b>EQUITY SOLUTIONS</b></p>  <p><b>£4.6bn</b> AUM</p>	<p>River and Mercantile Equity Solutions is a long-only active equity manager providing a range of equity products and solutions across the following markets:</p> <ul style="list-style-type: none"> <li>– UK Equities (Potential, Valuation, Timing (PVT) Team)</li> <li>– Global Equities (PVT Team)</li> <li>– Emerging Market Equities (ILC Team).</li> </ul> <p>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.</p>



## WHAT DIFFERENTIATES US



## STRATEGY HIGHLIGHTS

- 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, given strong alignment.
- 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.
- 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 on the benefits of derivatives.
- We will continue to emphasise client engagement; 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 continue to deliver strong investment returns.

## OPERATING BUSINESS REVIEW

# CONTINUING TO DELIVER STRONG RETURNS FOR CLIENTS



**James Barham**  
Deputy Group Chief Executive

**The CEO, Mike Faulkner, has set out in his section a clear assessment of our strategic focus in that we are trying to balance four priorities:**

- We need, like all firms, to continue to strengthen our corporate risk and operational processes, in light of greater regulatory engagement and more complex client requirements.
- We are seeking to diversify our business more effectively by client, asset and strategy type.
- We are seeking to grow and have invested to do so, albeit in a focused way.
- We intend to continue institutionalising investment R&D more effectively.

Strategically, our focus currently is on growing the following capabilities:

- **Equity Solutions**  
To continue the distribution of Global and UK Value, and EM-based strategies, with an emphasis on international jurisdictions.
- **Core Derivatives**  
To grow our core derivatives capabilities, primarily in the UK, through intermediated, platform and local government channels.
- **Active Derivatives**  
To develop our active derivative capabilities, where we are combining market views with our derivative overlay capabilities, for both our existing Solutions' clients and other CIO-led organisations.
- **Fiduciary Management**  
To prepare to meet the demand for Fiduciary Management pitches in the UK emerging from the final report from the CMA.
- **Macro**  
To develop the Macro business throughout the next 12 to 18 months.
- **Advice**  
To focus on growth in US advisory opportunities through our New York expansion, and through preparation for the more difficult market conditions we see facing our clients more generally in the near term.

In this section I want to focus on our existing business lines, specifically how they have performed over the last 12 months and how we are positioned going forward in the current market conditions with these strategic imperatives that Mike has set.

## "I look forward to the future with a high degree of optimism and excitement."

### The commercial logic that drove the original creation of our Group meets the market need now

We have articulated in previous reports the commercial logic that led to the establishment of the Group in 2014 and the diversification benefits that this provides through the economic cycle. We have set out in the following pages a broader description of our main operating businesses, our various routes to market and the associated revenue lines. We recognised when we merged in 2014 that this represented a fundamental shift in the dynamics of our industry, one that had been defined by the relationship between asset owners, asset advisors/consultants and asset managers. The boundaries were clear, and in the UK market clearly designated, however it has been fascinating to observe how these close but separated relationships had begun to evolve over the last five to ten years. There have been examples of asset owners becoming asset managers, asset consultants becoming asset managers and asset managers striving to understand their evolving role.

In its shift from FSA to FCA the regulator was clear that it wanted the asset management industry to understand their clients better, to leave behind the 'build and sell' mentality and to adopt a more consultative approach to product development and client engagement. This was the foundation of the discussions between River and Mercantile Asset Management LLP and P-Solve Investments Limited in 2013, which was also based on a previous live experience of this concept. The UK Recovery Fund was designed and launched in 2008 in conjunction with Hugh Sergeant's PVT team and the Fiduciary Management team at P-Solve Investments Limited to meet a specific investment need.

We recognised that this merger would accelerate the vision across the industry that participants should not be governed by narrow constraints and must evolve to ensure that clients' needs are best served. These shifting sands are best seen in the Australian institutional market where there has been fundamental change taking place for a number of years and this change is driving how market participants are shaped.

Since the creation of the 'Super' concept in 1992, the growth in providers exploded and at its height there were over 2,000 superannuation funds. Many of these funds were seeking to deliver the same outcome for

their clients, yet were not taking advantage of cost and capital synergies that would result following a period of consolidation. This process began a number of years ago and the number of superannuation funds has fallen to 250, mainly industry and state. In fact, there are only 20 corporate superannuation funds left. Market participants believe that this will ultimately fall below 100, although this level of consolidation will bring with it other challenges.

This 'consolidation' has driven the next stage in this evolutionary tale, that is 'internalisation'. Many services and needs previously provided by a range of suppliers have been internalised within the Super, this includes everything from financial advice for their members, to asset management and asset consulting services. This internalisation programme changes the way the asset management industry engages with these powerful asset owners. The concept of partnership has emerged whereby asset managers are not solely providing isolated products, but can become much more entrenched in driving the delivery of broader services and solutions, at a lower cost and where that solution is meeting specific client needs.

To respond to this and our growing client relations in Australia, we have opened a local office and hired a high profile individual to run this important market. I will discuss this later in the section on distribution.

The UK market has not been immune from these changes and whilst it is not apparent that we have followed a similar path to Australia, there are many similarities. We have a large and diverse number of pension funds and the process of consolidation, whilst somewhat different, has the same outcome. The development of the fiduciary market in the UK has had a similar impact to consolidation and in many cases incorporated elements of internalisation. Providers of fiduciary services are increasingly recognising that they face the same aggregate fee challenges that confronted the Superannuation market in Australia. As a result, there is a growing need to be able to manufacture specific solutions to meet the needs of our clients, both Fiduciary and more broadly across the business.

Consolidation is taking place in the local government sector, and it will be interesting to observe how this process develops and

whether this leads to a process of internalisation. The development of UK Super funds is starting to emerge and should drive consolidation in the corporate pension fund market.

This is an area in which we are well positioned to offer a leading proposition. There are few other organisations that have, within their own businesses, the combination of investment skills and requisite experience required to provide this valuable solution. The Group was the first to develop the fiduciary concept in the UK market in a form designed to respond to specific client needs and the development of the Super concept in the UK is an area in which we see strong parallels. We also see this trait in the UK wholesale market and expect that we will see further consolidation in the provision of advice more broadly across this market.

### Demand for high performance will continue to strengthen

What is clear through this evolution is the need to provide investment solutions that deliver on the promise. There is now clear water between the provision of cheap passive or synthetic solutions and the delivery of higher margin and higher return strategies. The lower returning active solutions have largely been driven out of the market, with this process of natural selection being positive for the industry as a whole. This is a direct result of the FCA's drive to ensure that we embrace consultative engagement with our clients and deliver what they need as opposed to 'build and sell' products at the highest margin regardless of outcome.

We have exceptionally strong investment manufacturing capability and, as a result, all but one of our products and solutions have delivered significant outperformance against their reference benchmark since inception. There have been few asset managers that can claim this level of consistency across multiple asset classes. Mike has discussed our focus on R&D and this will continue to grow in importance over the next few years, with much of the genesis of the solutions emerging from our response to fiduciary needs or our broader client base. The mantra is that we must be relevant and excellent as this is what our market demands.

## OPERATING BUSINESS REVIEW CONTINUED

### How clients 'buy' this performance will become more tailored

Our industry has been driven by the desire to mass customise products. The belief is that this is the route to operational gearing, as the same solution can be sold to multiple clients regardless of need. Whilst we recognise that many clients share similar challenges we would also like to be in the position where we can 'build to order' for many of them over the coming years. This can only be effective for both us and our clients if first we understand the need and if the solution is of sufficient scale to warrant the initial investment.

The changes highlighted above in terms of how the industry is orientated and evolving facilitates this outcome. The increased trend we see for internalisation and the establishment of CIOs in more than just name provides fertile soil for a business such as ours. The existence of our Fiduciary Management division equips us with the intellectual understanding of many of the challenges that our clients' CIOs are facing. Consequently, we are able to engage with them on a familiar footing and it is this recognition that allows our business to develop the trusted investment partnership relationship that our clients and the evolving market seek.

We see this trend clearly in Australia and the UK. The US to a certain extent is already there. In many instances it is a very sophisticated market with high quality internal CIOs across a range of asset owners from pension funds through to endowments and family offices. We have continued to invest in our US franchise and the recruitment of high quality individuals from Mercer to establish our New York office is the latest example. We are engaging with a range of institutions which recognise our clear competitive edge in providing them with the insights that they seek. The role of an internal CIO is often a lonely existence, and the access to high quality investment views and advice from an organisation which faces many similar challenges will become increasingly valued.

### THESE THEMES DRIVE OUR FOCUS

Four years after the IPO, the combination of our revenue lines provides the Group with many opportunities and whilst this last year has seen a number of factors suppress demand, I look forward to the next four years with a high degree of optimism and excitement. Our investment strategies and solutions are relevant to our clients' needs and provide excellent outcomes, and I am confident that we can meet the priorities that Mike has established for the Group and continue to grow our complementary and diverse revenue lines.

### FIDUCIARY MANAGEMENT AND ADVISORY

Fiduciary management and advisory solutions are often two sides of the same coin – the provision of support in making investment decisions. We often think of a process whereby the most important decision for a client is to choose their primary investment partner, and then define the engagement model which best suits their needs at the time. However, this may well change over time as their needs evolve.

The difference between the two approaches is that advisory leaves the client with the discretion to choose whether to action the advice given; whereas in a fiduciary management engagement fuller discretion is ceded to the Group under a defined governance framework.

There are various reasons that a client would choose one approach over the other, but one of the key advantages of fiduciary management is that it provides a level of investment responsiveness that it is hard for Trustees of schemes to achieve without an internal team to replicate it. This was seen during the EU referendum for example, where the Group was highly active in the market on the day of results based on advance planning for the investment implications of potential outcomes.

This year has seen generally stable revenue and AUM levels from both divisions, resulting from two main dynamics:

- First, positive investment returns across a wide range of asset classes in recent history has led to a suppressed demand for change from prospective clients – essentially when there is limited uncertainty, the drive to seek change in advice or investment support is reduced as people do not perceive a problem to solve. This is a dynamic which we would expect to change quickly if markets start to fall, or specific shocks are introduced which require response; and
- Second, we have seen a much reduced level of new fiduciary business coming to tender in the last year, due we believe to clients taking a wait-and-see approach to the CMA market review. Now that the provisional findings have been released, we expect activity to return to a more normal level over the next year.

Looking ahead, we believe that UK advisory revenues will remain stable as we expect structural factors to continue to suppress demand for advisory services – both in terms of a likely direction of travel towards fiduciary for small and medium-sized schemes; and as a result of the regulatory changes trailed by

the CMA leading to a period of adaptation for the market more generally. This is not to say that we will not see some specific increases in project fees as trading conditions become more turbulent and negative. The US however could provide stronger growth, as we leverage our recently acquired senior consulting capability to drive new business.

Fiduciary Management, on the other hand, should be a source of strong growth in the medium term, even if it remains slower for the next six months (as the increased tender demand takes time to move to fully-funded mandates). This is because we see the provisional output of the CMA being supportive to some of our competitive advantages and the increased tender volumes from the largest consultancies adding further growth opportunities. We also see nascent prospects in the US and Australia for our offerings (which tend to be described in those markets as 'outsource CIO').

### DERIVATIVE SOLUTIONS

Derivatives are tools that allow investors to pick and choose where they take risk to earn return and where they manage risks that they cannot afford.

These properties make them a highly effective tool for pension schemes looking to manage two sides of a balance sheet – assets that need to grow in a steady way and liabilities, the cost of securing which is volatile.

River and Mercantile Derivatives (RMD) aims to manage strategies to meet this need and focuses primarily on two types of derivative strategy – Liability Driven Investment (LDI) and Structured Equity.

### LDI

LDI is about allowing clients to manage liability risk, using derivatives, whilst still allowing them to target return. It is now seen as a mainstream component of investment strategy with 50% (about £1,000bn) of liabilities now hedged according to the XPS LDI survey 2018.

Whilst 50% of the liabilities have been hedged this is spread across only circa 2,000 mandates (there are over 5,000 pension schemes in the UK). This puts the current average LDI mandate size at approximately £500m, illustrating that a large element of the growth to date has been in larger schemes. RMD's speciality is making derivatives mandates accessible to all schemes including those below £500m in bespoke rather than pooled form. This provides better matching against liabilities and is more efficient from a collateral perspective. It is RMD's ability to tailor each strategy to suit client's needs that makes it unique in the industry.



Over the last 12 months, LDI growth has been driven by the sub-£500m schemes, with RMD's LDI client numbers growing by 20%, as well as existing clients extending their mandates. RMD has also seen growth spread across intermediaries and now has clients advised by the majority of the major investment consultants.

RMD's positioning and success has been recognised in LDI awards. There are five major awards within the LDI market – RMD has won three and were commended or in the top three in two others. In every one of those five cases making tailored solutions available to smaller schemes was cited as a stand out service.

### Structured Equity

Structured Equity uses equity derivatives to allow clients to shape their equity exposure. Less experienced users might see this as simply protecting from equity market falls by capping returns. However, RMD is unique in that it has significant equity derivatives trading experience, meaning that it can more appropriately tailor and adapt Structured Equity to other situations. For example:

- As a portfolio completion tool where it is designed with the entire scheme strategy in mind;
- As a diversifier from other equity-like assets;
- As a re-risking tool after a market fall (2009 saw significant Structured Equity activity); and
- Implemented synthetically such that the Structured Equity mandate provides shaped equity exposure whilst also providing a collateral pool for LDI and other derivative positions – which is of critical importance to entities needing to earn return whilst also manage risk at the same time.

It is RMD's ability to tailor each strategy to suit client's needs that we believe makes it unique in the industry.

Looking ahead, we are seeing strong growth in demand for Structured Equity services across the corporate pension scheme market. The investment we have made in our technology and engagement capabilities has meant that we are seeing growing adoption of the concept of SE and LDI amongst an increasing number of the asset consultants, and with it greater acceptance of the benefits and flexibility that derivatives offer clients across the size range.

Pension schemes without LDI will find themselves also needing a higher level of return as well as needing to manage risk. Integrating Structured Equity with LDI is a simple and capital efficient way to meet this need. We would expect to see intermediaries recognise this in the coming years and as a result, to see growth in such mandates. Indeed, almost all of the new Structured Equity mandates that we executed in the last year were implemented for clients that already had LDI (or put LDI in place at the same time).

In addition, within Local Government Pension Schemes (LGPS) who are generally new to derivatives and with governance challenges similar to smaller private sector schemes, RMD is seen as the market leader in Structured Equity solutions. In a market where we are competing against the biggest asset managers in the world this is an area in which we are continuing to invest and one in which we are held in high regard by the investment community more generally for providing market leading training, design, execution and client service.

We have executed a large number of significant transactions in the last 12 months, and the investment in training amongst our client base we believe, places us in a very strong position going forward. From the early days when our derivatives capabilities were purely an internal solution for our Fiduciary and Advisory clients, a much broader opportunity now exists. We now work with 13 other intermediaries and a growing number of non-advised clients directly.

The opportunity to develop our capabilities in overseas markets where the need for these solutions will increase significantly is very exciting. We believe that other markets such as the US are showing signs that they will de-risk their liabilities more quickly and more aggressively than we have seen in the UK. This will provide an exciting opportunity for RMD as we increase our investment in our US footprint.

The Australian market is still firmly in accumulation phase, however the use of derivatives is low in comparison to other geographies and our early stage conversations there are promising.

### EQUITY SOLUTIONS

We believe that equities businesses constructed through well designed investment teams brings stability and repeatability to investment where cycles and uncertainty normally exist and where consistently good outcomes are rare. Combining investment manager independence with a disciplined investment process provides the right balance in terms of delivering accountability for investment performance.

#### PVT

Our PVT team is an excellent example of an investment franchise purposefully developed over time. From the outset, we sought to design a repeatable investment process focused on systematically identifying sources of shareholder value creation or Potential, in combination with rigorous Valuation and Timing tools (hence PVT). Our Industrial Life Cycle (ILC) team has a similar ethos focussing on identifying exciting investment opportunities across the business life cycle. We have also identified and hired talented people who couple a passion for investing with a tireless work ethic. That process and those people have evolved into

a robust franchise with a broad research platform, a unique culture, a distinctive brand, and proven and sustainable results.

The key to continuity is sound succession planning and it is important when developing talented investors to provide them with sufficient investment flexibility to express their views, generate performance for clients and differentiate their strategies from competing products. Our PVT and ILC investment processes allow portfolio managers to manage our clients' capital within a robust framework of quantitative as well as qualitative fundamental research. This framework, in combination with the experience and knowledge of our lead investors (each with over 20 years in the investment management industry), delivers a repeatable and importantly teachable investment process for picking stocks and building portfolios. This in turn allows new generations of investment talent to be brought through first as analysts but then as portfolio managers in their own right, each adopting the same consistent investment process to express their own investment views.

This year, Dan Hanbury is once again bringing his experience to bear on the UK Smaller Companies Strategy and Will Lough – who was the team's first graduate hire almost 10 years ago – stepped up to manage the UK Dynamic Equity Fund, an active large cap focused strategy.

George Ensor – who joined the team five years ago – is now managing the UK Microcap Investment Company. Both Will and George have been close to, and contributed to, these strategies for several years prior to talking on these roles.

The measure of our successful continuity is evidenced by a further performance fee in July 2018 from our UK Micro Cap Investment Company and the high analyst coverage of all the stock names across our fund range. After 12 years (to June 2018), each of our PVT investment strategies is ahead of its benchmark and peer group since inception and it is this established track record on which we are aiming to build further with future generations of investment talent, for both existing and future clients.

## OPERATING BUSINESS REVIEW CONTINUED

In the PVT team, all the portfolio managers are supported by a team of fundamental research analysts including Charles Bennett, our Head of Quantitative Analysis and Mayan Uthayakumar, Director of Research, alongside Eduard Hernandez and Anna Pugh. In addition, they receive stewardship guidance from Gary Dowsett, Director of ESG who, with over 30 years investment management experience, has helped bring to the team an approach further embracing socially responsible investment principles.

Applying the philosophy and process originally designed by Hugh Sergeant and Dan Hanbury, the PVT team currently manages over £4 billion in eight investment strategies for clients located around the world. In the past year, the majority of UK and global funds were broadly in line with their benchmarks but over longer periods performance remained strong. Performance drag was primarily due to the re-emergence of a strong late cycle growth trend and away from value stocks where most of our funds are over represented. However, the portfolio managers remain excited by the potential in their portfolios that has resulted from depressed valuations relating to Brexit as well as fears of a domestic recession, together with record value spreads globally observed as a result of a ten-year period of unprecedented monetary, and more latterly in the US, fiscal policy.

The PVT team has grown strongly over the last 12 months in spite of the setback from the dismissal of a portfolio manager. We would also suggest that developing investors into teams and teams into a franchise is individualised and personal. With unique portfolio managers, no two paths will be the same. That is evident in the diversity – in terms of investment philosophy, team structure and culture – among all of our investment teams, including our newest Emerging Market Industrial Lifecycle team. We believe it is telling how a business copes with adversity and the professionalism that it demonstrates when so doing, and the teams have continued to remain focused on delivering strong relative investment performance for our clients.

We have continued to see strong growth and our global strategies have continued to win business in the UK, US, Australia and New Zealand. In response to this we have continued to expand our platform to reflect the growing globalisation of our client base. We have launched an Australian domiciled Unit Trust platform and we are in the process of creating similar structures in the US.

### ILC

The addition of the ILC team in June 2017 fits well with the Group's growth plans by adding emerging market equity capabilities. The ILC team shares a similar investment philosophy to the PVT team, namely building portfolios through a unique bottom-up stock selection process. The ILC investment process, which was developed in 2006 by current members of the team Al Bryant and Sudin Poddar, forms the basis for a durable and repeatable investment process.

The ILC process utilises a proprietary objective rule set to classify the universe of more than 4,000 emerging market companies into one of five categories; Growth, Cash Cow, Fading Winner, Restructuring and Financials. These categories correspond with a company's stage of corporate maturity. Stage specific screens are applied to each category in order to identify companies that are being managed in a manner consistent with the creation of shareholder value for the life cycle stage. Broadly, Growth and Cash Cow companies need to grow their cash flow and reinvest the proceeds profitably. Fading Winner and Restructuring stage companies must shift focus from growth to prudent capital management, restoring balance sheet health and divesting underperforming projects. Financials are a distinct grouping where value creation is dependent upon effective use of leverage to fund profitable growth.

We have talked about the importance of being investment relevant and providing investment excellence. Part of this is understanding our clients' needs and the role we play in their portfolios. We continue to ensure our investment teams, as well as the wider Group, work closely with the distribution and client service teams, and our clients to be true to this objective. We take our responsibilities seriously in delivering for all of our key stakeholders, most notably our clients, our regulators and of course our future investment talent in order to provide growing, robust and repeatable returns to our shareholders.

### DISTRIBUTION

I have described earlier in this section the background to our business and over the last few pages how our investment business and revenue lines are structured and have performed over the last 12 months. A key part in that process is our engagement with our clients. We have recently changed the structure of our business moving away from the orientation of our distribution along divisional lines of Asset Management and Solutions. This covers not just the initial engagement process with our clients but also the on-going client service that we provide. I have always believed that these two important facets are not siloes where clients are passed from one team to another based on the specific stage in the engagement process. Relationships built over time require nurturing and servicing and that is not best served by a structure that severs the link once that relationship formally becomes a client.

#### A strong year despite non-investment related headwinds

As Mike highlighted in his CEO's review, our revenue lines will perform differently depending on the stage of economic cycle. The environment over the last 12 months favours our Equities and Derivatives business lines and our Advisory and Fiduciary businesses have been more muted. There have been other non-investment factors that have influenced our revenue lines. The distribution growth headlines are as follows:

- We have seen a strong period of growth from our Equities business and they have increased management fee revenue by 41% during the period. This is in spite of the dismissal of a portfolio manager and whilst we anticipated some asset reduction, we were encouraged by the support that we have received from the market and investors' continued belief in our PVT investment approach. The arrival of the ILC team further consolidates our strong position in this market;
- We saw very strong gross sales in our Derivatives business, however revenue growth was only 8% during the year as a result of higher than normal redemptions. The main factor was the maturity of a large structured equity mandate where the client has not immediately rolled the mandate into a new structure. Mandates not rolling is relatively rare, and it may well be that it rolls back on at some point (we remain appointed by the client); and

– As we would expect at this stage of the cycle our Fiduciary and Advisory businesses have been relatively flat for the year. The reduction in the level of activity has been compounded by the on-going CMA market investigation however, the interim findings have been encouraging for our business and we were pleased to see that many of our suggestions had been picked up by the investigatory team and formed part of the remedial steps recommended in the interim report. We do expect to see a return to more normalised activity levels over the coming year and whilst there has been no immediate change to the economic climate, we do see a build-up of the investment risks that will lead to a recovery in demand for our advisory and fiduciary services. The increase in pitching opportunities as a result of the CMA review will feed through in time and we would expect to see the impact of this in 2019.

#### **We continue to invest in and broaden our distribution**

We have invested in distribution over the last 12 months in both the US through the ILC team transaction and more directly in Australia with the recruitment of Tim Horan. I have described earlier the changing dynamics of the Australian institutional marketplace and the opportunities this presents to a business such as ours. We have been developing this market over the last four or five years and building out our relationships and credibility. We are now running in excess of AUD\$1bn in the region and it was clear to us that to maintain this development and to take advantage of the opportunities, we needed to open an office in the region. We were delighted that we were able to recruit Tim Horan from Westpac and have opened an office. Tim headed the sports and entertainment business in Private and Premium Banking at Westpac for more than seven years. Prior to this, he was head of capital raising at Meridian Funds Management. Tim needs little introduction as he was one of the leading rugby players of his generation, represented the Australian Rugby team (Wallabies) over 80 times and was part of the team that won the Rugby World Cup in 1991 and 1999. We will work with Tim in Australia to develop our business and we intend over time to build an investment manufacturing presence in the region.

#### **Continued development**

We continue to examine our options regarding the US. We have distribution capabilities based in Chicago co-located with our emerging market equities business

(ILC team) headed by Will Sly and also from an investment solutions perspective our team based in Boston. The US is a significant market and over the next 12 months we will be looking at how we can best resource our distribution ambitions in this region.

As described earlier, our UK distribution was orientated on divisional lines. In Asset Management we have a strong Wholesale team led by Mark Thomas and an Institutional team led by Arabella Townshend supported by a Client Servicing team led by Alexandra Wilding-Jones. In our Solutions business, new business development is led by Lara Edmonstone-West and Kate Finch and the client servicing is undertaken within the investment teams. We have decided that it is in the best interest of our clients that we coordinate our distribution and support functions as one entity. In addition we will invest in this team over the coming year to ensure that they are properly resourced to take advantage of the various opportunities in the market more broadly, as well as those specific to the Fiduciary business that will emerge post the CMA investigation into the industry.

#### **Effectively targeted marketing**

We believe that selective and targeted use of PR and social media can often be as successful, and in certain circumstances create more of a powerful impact than an expensive blanket advertising plan. Scott Nicholson, our Group Head of Marketing and his team have ensured that the business is well represented in the media and that our investment views are presented directly into our key audience groups. Our client quarterly reports have always been highly regarded and we operate a process of continuous improvement to ensure that we provide our clients with detailed understanding of their investments with the respective parts of our business.

#### **Our membership of the European Union**

Much has been written about our continued membership of the European Union following the UK referendum in 2016. The trigger date of March 2019 is fast looming on most businesses horizons, either as a date that has cast a shadow over their activities for some time or just another date in the Gregorian calendar, with this attitude being dependent on either one's political views or business activity. I do not believe this is the place to espouse personal views however from a business perspective it is important that we are cognisant of the potential impact on our existing business and potential future development.

River and Mercantile has little business risk associated with a departure, however there is still a certain degree of uncertainty associated with the nature of the exit. Our clients are mainly based in the UK, US, Australia and New Zealand, although we do have two institutional clients based in mainland Europe and we have fund platforms in Dublin and Luxembourg, with the latter coming with a number of wealth management clients. This provides us with options surrounding future growth plans. We will continue to monitor developments and plan accordingly, and we will keep you abreast of any required changes.

The alterations to our existing relationship with the European Union may however bring some unexpected windfalls for fund managers with institutional quality UK equity strategies. The majority of European banks and wealth managers invest on a pan-European basis and we are beginning to see signs that this may change following a departure. It would be foolish for any investor to structurally ignore a market as large as the UK considering its globalised equity benchmark, and whilst this would no longer be part of a broader European index cohort, having separate direct exposure to UK equity mandates is a solution some investors may consider and have already discussed with us.

#### **In summary**

Our operating businesses have continued to deliver strong returns for our clients in line with our expectations and we strive to meet the strategic demands that our CEO and the Chairman have set for the business. We have, and will continue to look at, opportunities to strengthen our offering, whether this is delivered through organic or inorganic means. I would like to take the opportunity to thank all of our clients for their continued support.

#### **James Barham**

Deputy Chief Executive Officer



## CASE STUDY

# FOCUSED ON CLIENT OUTCOMES

**In this case study we demonstrate how we have worked with a fiduciary management client to implement an effective investment strategy to meet their needs.**

The strategy has evolved over time to now target full funding on a low risk self-sufficiency basis by 2029. This client's success has been driven by strong investment performance, the design and implementation of a mandate to manage their growing cash flow needs, as well as strong relationships between the Trustees, Sponsor and their advisors.

SCHEME SIZE:

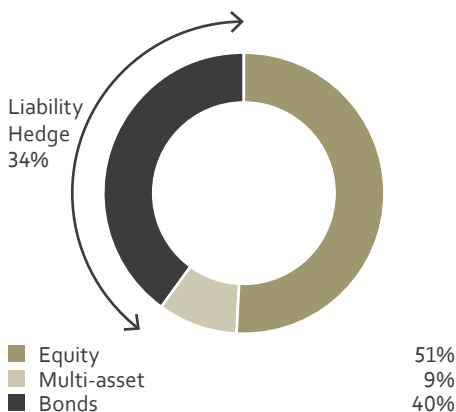
**£631m**

ENGAGEMENT MODEL:

**Fiduciary**

We were initially appointed as investment advisor to the scheme in August 2013. The Trustees liked that we were able to offer them a bespoke service, and they could implement a solution through either an advisory or fiduciary approach; at the time the Trustees weren't sure which engagement model best met their needs. Their strategy had a high exposure to equity markets which we felt could be diversified across other asset classes to better manage risk. Liability risk was also not managed as effectively as it could be, meaning their funding level was volatile and impeding their ability to plan their journey to full funding.

**2013: INITIAL ASSET ALLOCATION AT CLIENT TAKE-ON**

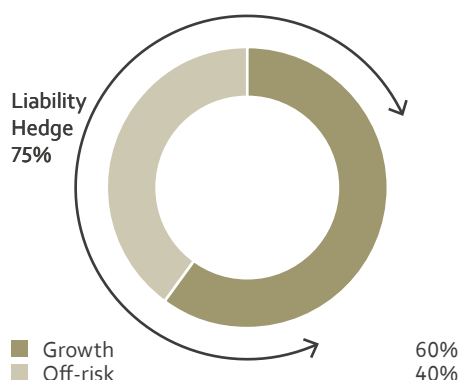


We immediately focused on better managing their growth assets to protect the portfolio from market shocks whilst we undertook a detailed strategy review.

Following this review, the Trustees' took the decision to adopt a fiduciary relationship with us. This was driven by their desire for a more sophisticated investment strategy. As part of this, we educated the board on liability hedging and they agreed to put an extended mandate in place which increased their hedging ratio to 75%<sup>1</sup>. This was important to protect the portfolio to interest rate and inflation shocks.

The scheme's growth assets were subsequently moved to our fiduciary solution: a multi-asset, highly diversified and dynamic portfolio. The liability hedge was also set to a bespoke portfolio of gilts and swaps. The one year 5% value at risk measure in the strategy fell by 18% as a result of these changes.

**2014: INITIAL ALLOCATION TO THE FIDUCIARY PORTFOLIO**



Notes: Liability hedging level estimated as a percentage of the technical provisions basis liabilities.

Subsequently, market conditions were challenging, in particular the continued decline of UK interest rates, however the higher levels of liability hedging for the scheme helped immunise this impact.

This coupled with strong returns from the growth portfolio, (returning 10.4% p.a. from inception up to the 2016 valuation date) helped to improve the funding level of the scheme to 99% on the technical provisions basis. Continued strong performance soon meant a funding level of over 100% was achieved.



**Our advisors at R&M Solutions have many strengths and qualities, not least they demonstrate to a great degree that they totally understand the investment market.**

Scheme Trustee

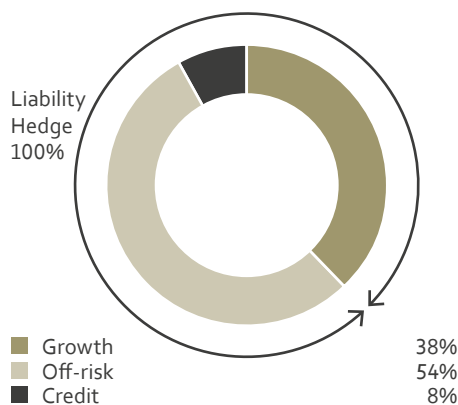
**Their investment performance has been excellent and our fund has increased.**

**I absolutely cannot fault R&M Solutions' performance. They are a brilliant team and a breath of fresh air as our new advisors.**

The focus of the Trustees, and sponsor, subsequently moved to targeting self-sufficiency by 2029; whilst simultaneously protecting full funding on a technical provisions basis.

- To protect the 100% funding level we:
- Reduced the allocation to growth assets
  - Increased the liability hedge to 100%
  - Designed and implemented a brand new building block of cash flow matching credit.

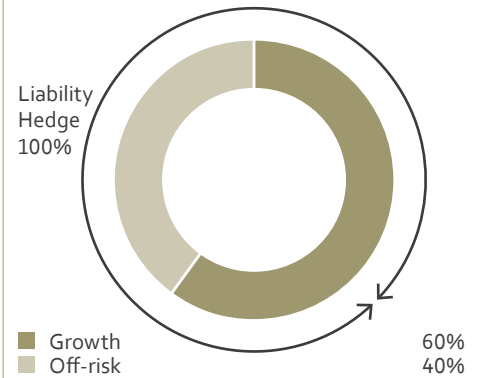
**2017: DE-RISKING AND CASH FLOW MATCHING CREDIT**



The implementation of the cash flow matching credit mandate meant the Trustees were able to manage the growing cash requirements of the scheme more efficiently now sponsor contributions had ceased. We designed a credit mandate constructed of high quality credit, with a low probability of default and high certainty of return.

Due to our in-house liability hedging capability we have been able to integrate the credit allocation into the scheme's liability hedge meaning we have firm control and understanding of all assets that provide liability hedging characteristics to the scheme.

**2029: THE END GOAL: SELF-SUFFICIENCY PORTFOLIO**



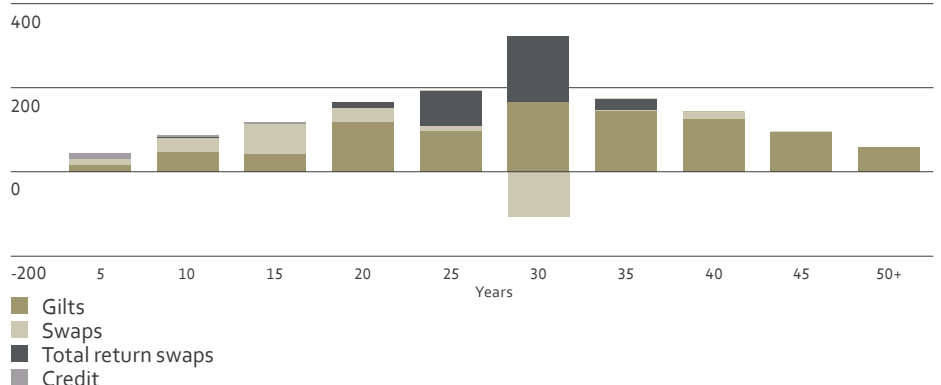
Over time we have evolved the design of the portfolio with the future asset allocation of the scheme in mind, where we anticipate a de-risked portfolio comprised only of credit, gilts and a liability hedge overlay as shown in the following chart.

Today the scheme is 104% funded on the technical provisions basis, which equates to a self-sufficiency basis funding level of 96%<sup>2</sup>. Monitoring the journey to self-sufficiency, we will continue to move the portfolio towards its target allocation, thereby achieving continued de-risking but also meeting the growing cash flow needs of the scheme.

The Trustees have been pleased with the outcomes raised to date for the scheme; we have spent time understanding and developing solutions that have helped their evolving needs. Our design of an innovative credit mandate to meet their drive towards self-sufficiency has been key. Collectively, both we and the Trustees we look forward to moving closer to their funding target over time.

Notes:  
 1. Estimated by R&M Solutions as a percentage of the technical provisions liabilities.  
 2. Estimated by R&M Solutions as at 31 December 2013.

**Interest rate liability hedge design  
 Change £'000s for 0.01% change in interest rates ('PV01')**



## KEY PERFORMANCE INDICATORS (KPIs)

The 2018 KPIs reflect a lower activity level in Fiduciary Management and Advisory, and the loss of AUM in the second half of the year as a result of dismissing a portfolio manager.

### 1 Growth in fee earning AUM/NUM



Fee earning AUM/NUM



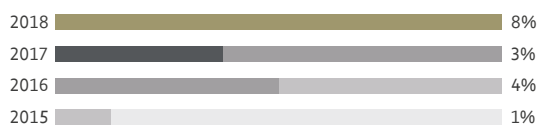
The growth in AUM/NUM is a key indicator of the client engagement process and is the driver for growth in net management fees. The growth in AUM/NUM is a function of new mandates (including acquisitions), low attrition rates, aggregate investment performance and net rebalance.

In 2018 the growth in fee earning AUM was below historical levels due to Structured Equity maturities and redemptions relating to the dismissal of a portfolio manager. The business continues to have significant excess AUM/NUM capacity in existing and new strategies.

### 2 Regretted institutional attrition (RIA)



Regretted institutional attrition



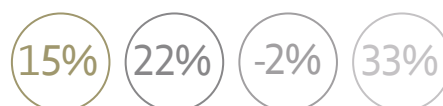
RIA is calculated as the opening AUM/NUM of lost institutional clients, divided by total opening AUM/NUM. It excludes pension clients which have entered the Pension Protection Fund due to sponsor default or pensions who have moved to buy-in or buy-out, and redemptions arising from fund benefit payments.

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.

A low client attrition is a measure of our client engagement process results in higher net growth in AUM/NUM and efficiency gains in the cost of distribution.

The Group's RIA varies from year to year but continues to be low when compared to traditional asset managers. It increased in the current year due to a single large (£1.4bn) structured equity mandate which reached maturity and was not replaced, although we remain appointed. Excluding this item, RIA is 3%, consistent with prior periods.

### 3 Growth in net management and advisory fees



Net management and advisory fees



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

While the growth in AUM/NUM was below our historical trend, the growth in net management and advisory fees was above our medium-term strategic target of 12% as a result of prior year embedded growth, and mix shift towards higher margin divisions.

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



### Adjusted underlying pre-tax margin



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.

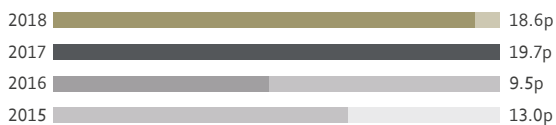
Adjusted underlying pre-tax margin was lower as a result of cost increases from regulatory change, as well as investments in, primarily, the ILC team and additional hiring made during the year. These investments create increased opportunity to organically grow our revenue in future periods. Excluding the costs and revenues of: the ILC team; the New York and Australian offices; and external research costs, the margin is 28%.

1. See glossary.

## 5 Percentage of adjusted earnings per share distributed



### Percentage of adjusted earnings per share distributed



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.

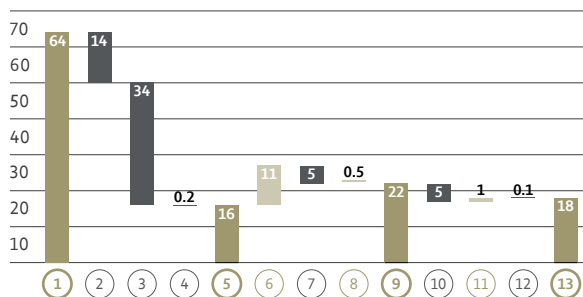
During the years 2015-2018 the Group has paid 80% of adjusted underlying profits and 100% of net performance fee profits as dividends. The year-on-year variation of adjusted earnings being distributed is a result of the ratio of net performance fees to adjusted underlying profits.

Adjusted profit is calculated on a consistent basis each year. Further information can be found in note 14 to the consolidated financial statements.

## Earnings and dividends

	2018	2017	2016	2015
Adjusted underlying EPS (basic)	16.0p	15.9p	10.6p	12.8p
Net performance fee EPS (basic)	5.9p	7.0p	1.0p	2.6p
<b>Adjusted EPS (basic)</b>	<b>21.9p</b>	<b>22.9p</b>	<b>11.6p</b>	<b>15.4p</b>
Interim dividend paid	7.6p	5.6p	3.6p	4.6p
Declared second interim dividend	5.5p	8.1p	3.4p	4.6p
Proposed final dividend	5.5p	6.0p	2.5p	3.8p
<b>Total dividend for the year</b>	<b>18.6p</b>	<b>19.7p</b>	<b>9.5p</b>	<b>13.0p</b>
Percentage of adjusted underlying profit distributed	80%	80%	80%	80%
Percentage of net performance fee profit distributed	100%	100%	100%	100%
<b>Percentage of adjusted EPS distributed</b>	<b>85%</b>	<b>86%</b>	<b>82%</b>	<b>83%</b>

## Adjusted profit before tax to statutory profit reconciliation



- 1 Net management and advisory fees
- 2 Administrative expenses
- 3 Underlying remuneration
- 4 Amortisation of software, depreciation and finance income
- 5 Adjusted underlying profit before tax
- 6 Performance fees
- 7 Less remuneration at 50%
- 8 Gain on disposal of AFS
- 9 Adjusted profit before tax
- 10 Amortisation of intangible assets and IMAs
- 11 Other income
- 12 EPSP costs
- 13 Statutory profit before tax

## FINANCIAL REVIEW

### Strong organic growth and selective investments to broaden our distribution, and build research and development capabilities



- Statutory profit after tax of £15.1m, an increase of 13%
- Statutory EPS increased 14%
- Fee earning AUM/NUM increased by 9%
- Net management and advisory fees increased by 15%
- Adjusted underlying pre-tax margin 25%
- Adjusted basic EPS reduced 5%.

**Kevin Hayes**  
Chief Financial Officer

#### AUM/NUM AND MARGINS

We have continued to grow AUM/NUM through both positive net flows and investment performance. Net management fee margin levels have been broadly maintained across all divisions. The growth of our net management fee revenue results from the growth of our AUM/NUM, and the stability of our management fee margins charged to clients.

Positive net flows are an indication of both our ability to retain previously mandated 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 2018:

£'m	Assets Under Management (AUM) and Notional Under Management (NUM)					
	Fiduciary Management	Derivative Solutions (NUM)	Equity Solutions			Total AUM/NUM
			Wholesale	Institutional	Total	
Opening fee earning AUM/NUM	10,528	16,888	1,821	1,812	3,633	31,049
Sales	535	3,855	726	583	1,309	5,699
Redemptions	(419)	(3,094)	(847)	(194)	(1,041)	(4,554)
	116	761	(121)	389	268	1,145
Net rebalance and transfers	(280)	973	–	280 <sup>1</sup>	280	973
Net flow	(164)	1,734	(121)	669	548	2,118
Investment performance	278	–	187	211	398	676
<b>Closing fee earning AUM/NUM</b>	<b>10,642</b>	<b>18,622</b>	<b>1,887</b>	<b>2,692</b>	<b>4,579</b>	<b>33,843</b>
Mandates in transition	12	12	–	188	188	212
Redemptions in transition	(49)	(18)	–	–	–	(67)
<b>Total mandated AUM/NUM</b>	<b>10,605</b>	<b>18,616</b>	<b>1,887</b>	<b>2,880</b>	<b>4,767</b>	<b>33,988</b>
Opening mandated AUM/NUM	10,526	16,316	1,821	1,812	3,633	30,475
Increase in fee earning assets	1.1%	10.3%	3.6%	48.6%	26.0%	9.0%
Increase in mandated assets	0.8%	14.1%	3.6%	58.9%	31.2%	11.5%
Average fee earning AUM/NUM	10,677	17,040	2,058	2,349	4,407	32,124
Average margin 2018 (bps)	17-18	6-7	70-71	39-40	53-54	17
Average margin 2017 (bps)	17-18	6-7	71-72	41-42	56-57	16
Medium term margin guidance (bps)	16-17	6-7	66-68	39-40		
Net management fees 2018 £m	18.4	11.8	14.5	9.3	23.8	54.0

<sup>1</sup> Transferred in on acquisition of ILC team.

This year has seen a record level of gross sales at £5.7bn, a year-on-year increase of 12%. However, this has been partly offset by higher levels of redemptions in Derivatives Solutions and Equity Solutions Wholesale.

Of our gross sales of £5.7bn during the year, £3.2bn was from new clients, and £2.5bn was from 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 client outcomes and gives the business an overall lower cost of client engagement.

Investment performance added £0.7bn to AUM. Within Fiduciary Management, 3.6% performance was generated from the bond-based matching fund and -0.7% from risk assets.

Overall divisional margins have remained consistent with our medium term guidance. Our overall margin increased by one basis point reflecting the increase in higher margin Equity Solutions AUM during the year.

#### REGRETTED INSTITUTIONAL ATTRITION (RIA)

Our business model is focused on meeting our clients' investment needs. Our engagement approach results in an alignment between the investment strategy and the clients' desired range of investment outcomes. Our aim through this approach is to achieve higher levels of client satisfaction and therefore lower redemption rates. We measure this by RIA.

£m	Fiduciary Management	Derivative Solutions	Equity Solutions – Institutional	Total
Gross outflows	419	3,094	194	3,707
Opening AUM/NUM	10,528	16,888	1,812	29,228
Outflow %	4%	18%	11%	13%
<b>RIA 2018</b>	<b>0.2%</b>	<b>14%</b>	<b>0.3%</b>	<b>8%</b>
RIA 2017	1%	4%	12%	3%

Derivative Solutions' RIA increased this year as the result of a large mandate which reached its contractual maturity date. We remain appointed by the client, however the structure has not been replaced. Excluding this item, RIA is 3% which is consistent with prior periods.

#### REVENUE

Total revenues increased 9% to £74.8 million with strong growth in management fees, being partially offset by lower performance fees.

Net management and advisory revenues increased 15% to £64.2 million, above our medium term target of at least 12% growth per year. The majority of the increase was in Equity Solutions through the broader distribution in the US and Australia of our global equity strategies. Revenue increased ahead of AUM/NUM as a result of mix shift between differing margin divisions combined with the impact of prior year AUM/NUM growth.

A feature of our diversified business model is that different divisions will perform at different points in the market cycle.

Fiduciary management fees grew by only 4% due to the lower volume of new fiduciary mandates coming to market as a result of the CMA investigation into investment consultancy. Advisory fees decreased by 3%, largely due to lower advisory activity given the generally benign economic conditions. Overall management fee margins remained stable and within the guided range. Performance fees for the year were down 16% to £10.6 million due to lower performance fees from Equity Solutions.

£'000	2018	2017	Increase/ (decrease)
<b>Net management fees</b>			
– Fiduciary Management	<b>18,400</b>	17,677	4%
– Derivatives	<b>11,777</b>	10,883	8%
– Equity Solutions Wholesale	<b>14,521</b>	10,668	36%
– Equity Solutions Institutional	<b>9,265</b>	6,143	51%
Net management fees	<b>53,963</b>	45,371	19%
<b>Advisory fees</b>			
– Retainers	<b>5,443</b>	5,697	(4)%
– Project fees	<b>4,792</b>	4,825	(1)%
Advisory fees	<b>10,235</b>	10,522	(3)%
<b>Total net management and advisory fees</b>	<b>64,198</b>	55,893	15%
<b>Performance fees</b>			
– Fiduciary Management	<b>8,167</b>	6,585	24%
– Equity Solutions	<b>2,408</b>	5,964	(60)%
<b>Total performance fees</b>	<b>10,575</b>	12,549	(16)%
<b>Total revenue</b>	<b>74,773</b>	68,442	9%

#### NET MANAGEMENT FEES

Management fees are generally charged as a percentage of the AUM/NUM we manage for 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.

Overall growth in net management fee revenue was 19%.

#### Fiduciary Management

Closing fee earning AUM £m	Growth in fee earning AUM	Average AUM £m	Average margin (bps)	Revenue £m	Growth in revenue YoY
10,642	1%	10,677	17-18	18.4	4%

Fiduciary Management new mandate opportunities have been more muted as strong markets and the CMA investigation into fiduciary management and investment consulting have led to a limited number of pensions tendering for fiduciary management. However, we expect growth to return based upon the CMA provisional findings which should prove supportive to our fiduciary management proposition.

#### Derivative Solutions

Closing fee earning NUM £m	Growth in fee earning NUM	Average NUM £m	Average margin (bps)	Revenue £m	Growth in revenue YoY
18,622	10%	17,040	6-7	11.8	8%

Derivative Solutions comprises Liability Driven Investment (LDI) including gilt collateral management) and Structured Equity products.

Derivatives by type:

£m	Structured Equity	Gilts and LDI	Total NUM
Opening fee earning NUM	3,643	13,245	16,888
Sales	2,135	1,720	3,855
Redemptions	(2,123)	(971)	(3,094)
Net rebalance	121	852	973
Net flow	133	1,601	1,734
<b>Closing fee earning NUM</b>	<b>3,776</b>	<b>14,846</b>	<b>18,622</b>
Mandates in transition	12	–	12
Redemptions in transition	(18)	–	(18)
<b>Total mandated NUM</b>	<b>3,770</b>	<b>14,846</b>	<b>18,616</b>



## FINANCIAL REVIEW CONTINUED

LDI relates to the management of interest rate and inflation risk in the underlying pension liabilities. In 2018 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.

Derivative Solutions' Structured Equity capabilities provide strategies to shape the return profile of clients' equity portfolios.

We have continued to see strong demand for LDI and Structured Equity and have won a number of large mandates including £1.4bn from local government pension schemes. Against this, we have seen a larger mandate in particular (£1.4bn) reach contractual maturity leading to redemptions.

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
4,579	26%	4,407	53-54	23.8	41%

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.

2018 has been a strong year for the Equity Solutions division and its PVT investment team with strong sales and investment performance increasing AUM above £4.5bn.

In Equity Solutions Wholesale, strong first half AUM growth was reversed in H2 following the dismissal of a portfolio manager in February 2018. In total, we experienced £532m of redemptions from the funds which the portfolio manager previously managed.

Equity Solutions Institutional grew strongly in the year, as demand continues for the Global High Alpha strategy in particular – both in the UK, US, Australia and New Zealand. We now manage £635m of AUM in Australia/New Zealand and by establishing our new office in Australia, we expect to expand our business in a market with significant pension assets. The acquisition of the Emerging Markets ILC team from Credit Suisse resulted in £280m of AUM transitioning to the Group in December 2017.

### 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 a 3% decrease in advisory revenues.

The split between retainers and project fees was:

£'000	2018	2017
Retainers	5,443	5,697
Project fees	4,792	4,825
<b>Total advisory fees</b>	<b>10,235</b>	<b>10,522</b>

The same macro-economic factors impacting lower Fiduciary Management mandate growth have also impacted the Advisory division. In more stable conditions, trustees have less need for support in interpreting events and the impact on their schemes. Typically, more turbulent markets and one-off events or shocks lead to increases in the level of advisory revenues.

Our outlook for Advisory is for largely stable revenues in the UK, as we believe that trustees will increasingly move towards a fiduciary management model.

In the US we have made two senior hires and established an office in New York. We anticipate that this investment will accelerate the growth of our existing US Solutions business.

### REVENUE-WEIGHTED ASSET ATTRIBUTION (RWAA)

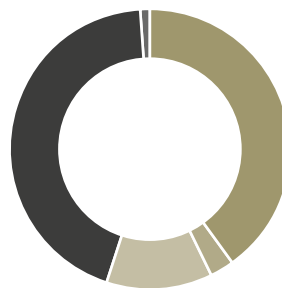
The revenues of traditional asset management firms have a high correlation to movements in markets, particularly equity markets, both in terms of AUM flows and investment performance. However, the relative diversification of the Group's revenue streams mean that we have more resilience in sources of revenue, particularly in negative market conditions.

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 linked to underlying asset prices and therefore are classified as not having a market exposure.

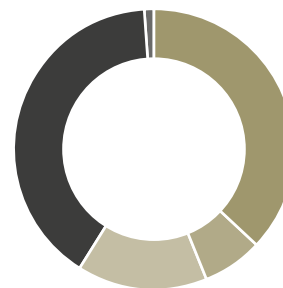
Derivative Solutions is also classified as independent, as while the underlying revenue is generated on hedging strategies in interest rates, inflation and equities; the revenue is not linked to the mark-to-market valuation but to either the contractual notional amount of the derivative instrument or the billing notional in the case of certain clients who pay a fixed fee. As a result, these revenues do not have a market driven exposure.

GROUP RWAA  
JUNE 2018



Equities – Non-discretionary	40%	Equities – Non-discretionary	37%
Equities – Discretionary	3%	Equities – Discretionary	7%
Interest rates	12%	Interest rates	15%
Cash/independent	44%	Cash/independent	40%
Other	1%	Other	1%

GROUP RWAA  
JUNE 2017



We believe that the Group is well diversified in its revenue base, with over 50% of revenue derived from sources which are not as affected by equity market conditions. This is not to say that a prolonged downturn would not have an impact on our business over time, but our revenues are likely to show lower volatility.

The growth in assets in Equity Solutions has increased the revenue exposure to equity markets, partly offset by reduced discretionary equity exposures in fiduciary management portfolios. The increase in Derivatives NUM has led to a larger level of notionally based revenue, which does not directly respond to changes in markets.

**PERFORMANCE FEE REVENUE**

This year has been another strong year of investment performance with all but one of our strategies (US Fiduciary) performing above benchmark since inception. Performance fees in Fiduciary Management were £8m, resulting from the underlying investment performance generated by the investment teams, coupled with the more stable interest rate environment. Equity Solutions’ performance fees which are now primarily from the River and Mercantile Microcap Investment Company (RMMIC), were £2m. These were lower than last year largely due to timing of the performance fee crystallisation. In July 2018 a further performance fee of £2m was recorded from RMMIC which will be included in the income statement next year.

**Fiduciary Management performance fees**

Performance fees are earned within the main investment strategy within Fiduciary Management, TIGS (Total Investment Governance Solutions) and 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.

The following table gives an indication of the impact of rates on Fiduciary Management performance fees for a given level of performance.

Market condition	Performance fee impact	Key drivers
Yields fall significantly, liabilities rise	Likely low to zero	Even if our return-seeking performance is strong, the under-hedge against the long term interest rate risk will be a source of underperformance
Yields stable, liabilities flat	Relatively good, assuming return-seeking assets produce decent positive returns	Performance fees driven by asset returns – as long as they are at reasonable levels we will be paid performance fees
Yields rise significantly, liabilities fall	Likely to be significant	Because we are hedging less than 100% of liabilities, we are likely to strongly outperform our objectives, especially if risk assets are also performing

To provide additional guidance on the level of performance fees that could be earned in Fiduciary Management we have included the following analysis. As noted above, the level of performance fees earned are dependent on the performance against benchmark over the full deferral period.

The table below shows the level of performance that could be earned at different outperformance levels over the next two years, based upon the following assumptions:

- 1) The investment performance is consistent in each of the years shown;
- 2) The current performance fee eligible AUM is as at 30 June 2018 without change over the period; and
- 3) The 30 June 2018 performance level is the starting point.

£m Outperformance range each year	Estimated TIGS performance fees recognised	
	June 2019	June 2020
-2%	9	0
0%	11	2
2%	13	6

Performance fees are crystallised on the anniversary date of the client engagement. In the figures shown above, approximately 60% of the performance fees would be earned in the second half of the year.

**Equity Solutions performance fees**

In Equity Solutions, performance fees are mainly generated by 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 RMMIC. RMMIC is structured as a closed-ended vehicle. If the net asset value rises above a prescribed value; the independent board of directors of RMMIC will consider a redemption of shares to return of capital to investors and pay the performance fee.

Performance fees were £2.4m for the year ended 30 June 2018, including £1.0m from RMMIC.

At 30 June 2018, total performance fee eligible assets (excluding RMMIC) were £435m. Of these assets, £91m were above their high-water mark by less than 2% and £344m were below their high-water mark by less than 2%. The weighted average rate of performance fees in respect of outperformance on the eligible AUM is 18%.

**PROVISION FOR FCA COMPETITION MATTER**

The Group had previously recognised a provision of £1.0m in respect of an FCA statement of objections to four asset managers including RAMAM, alleging a breach of competition law concerning the disclosure and/or acceptance of information about the pricing for shares in relation to one IPO and one placing.

The matter does not affect any clients of the Group or the net asset value of any fund or segregated mandate.

RAMAM and the Group have cooperated fully with the matter and have pursued a robust defence. Whilst no decision has been reached, following feedback from the FCA on the likely quantum of penalty should one be imposed, the provision was reduced to £109,000.

## FINANCIAL REVIEW CONTINUED

## ADMINISTRATIVE EXPENSES

£'000	2018	2017
Administrative expenses excluding governance	12,800	10,007
Governance costs	538	413
IT project costs	–	1,142
External research costs	736	–
<b>Administrative expenses</b>	<b>14,074</b>	<b>11,562</b>
<b>Total net management and advisory fees</b>	<b>64,198</b>	<b>55,893</b>
Administrative expenses as a percentage of net management and advisory fees	21.9%	20.7%

We had previously stated that we expected the ratio this year to be 20-21%, plus £0.8m in respect of research costs under MiFID II. We have ended the year within this range, at 20.8% excluding external research costs (21.9% overall).

Aside from the impact of research costs, the year-on-year increase resulted from the following main areas of spend: occupancy due to increased headcount; IT costs associated with the Group's new IT infrastructure following separation from the previous provider; legal costs relating to investment in the funds platform including: the Global Macro Fund; regulatory compliance; and the new ILC team based in Chicago.

The Global Macro Fund was launched in February 2018 and costs in relation to its launch were £0.3m. The one-off costs in relation to transitioning from the Credit Suisse Luxembourg UCITS platform to a new platform provider were £0.2m.

The additional legal costs related to a number of regulatory and compliance initiatives as a result of changes in the competition regulations, work on the implementation of MiFID II and legal fees in relation to the new presence in New York and Australia.

We continue to expect upward pressure on administrative expenses in the coming year, most notably the full-year effect of external research costs (an increase against the current year of circa £0.8m), and continued product development and investment in infrastructure including the New York and Australian offices. As a result, we expect the ratio of administrative expenses to net management and advisory fees to be at a similar level (21-22%) to the current year.

## REMUNERATION

£'000	2018	2017
Fixed remuneration	22,940	20,114
Variable remuneration	16,210	15,201
<b>Total remuneration (excluding EPSP costs)</b>	<b>39,150</b>	<b>35,315</b>
<b>Total revenue (excluding other income)</b>	<b>74,773</b>	<b>68,442</b>
Remuneration ratio (total remuneration excluding EPSP costs/total revenue)	52%	52%

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.

The increase in the underlying ratio year on year reflects the investment made in people in relation to new initiatives – these include the New York and Australia offices, and the ILC team. This cost has been incurred ahead of the expected revenue.

## Executive Performance Share Plan (EPSP)

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

As at 30 June 2018, the measurement period for the EPSP had ended. The compound annual TSR was based upon the three month volume weighted average price at the end date of the period, which was 19%. This results in 57% of the A shares being eligible for award and none of the B shares. This equates to a total of 2.8m shares, or 3% of current issued share capital.

## STATUTORY AND ADJUSTED PROFITS

£'000	2018	2017	2016
Statutory profit before tax	<b>18,452</b>	16,389	7,236
Statutory pre-tax margin	<b>25%</b>	24%	15%
Adjusted profit before tax	<b>21,824</b>	23,427	11,849
Adjusted pre-tax margin	<b>29%</b>	34%	25%
Adjusted underlying profit before tax	<b>16,079</b>	16,360	11,084
Adjusted underlying pre-tax margin	<b>25%</b>	29%	24%
Adjusted profit after tax	<b>17,567</b>	18,589	9,536

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. Statutory profit has increased ahead of adjusted profit as a result of a number of gains which are not included in adjusted profit, most notably the bargain purchase gain on the acquisition of the ILC team. The definition of adjusted underlying and adjusted profit, alongside a reconciliation to statutory profit can be found in note 14 to the consolidated financial statements.

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

### Investment during the year

During the year, the Group has invested in new capabilities and geographic presence: the ILC team; the New York and Australian presence, and the Global Macro Fund. Excluding these items (both cost and revenue), the adjusted underlying margin would be 28%.

### ILC ACQUISITION

Following the signing of a heads of terms and investment advisory agreement with Credit Suisse Asset Management (CSAM) in June 2017, an emerging market equity investment team (the ILC team) who managed \$0.4bn of assets, transferred to the Group. These strategies were managed under an investment advisory agreement with CSAM until the investment management agreements were transferred to the Group, which occurred in December 2017. The addition of the ILC team, who have a similar life cycle investment philosophy to the PVT team, expands our equity expertise into emerging market equities. The assets on transition (£280m) are shown in AUM as a result of the funds having transferred to the Group under an IMA.

Prior to the IMA transfer, the income from the ILC team was recorded as advisory fees.

On transfer of the IMAs to the Group, an acquisition was triggered. The terms of the deal have led to a 'bargain purchase', resulting in a gain of £1m being recorded in the income statement. This represents an accounting entry as opposed to a realised gain, and so it is excluded from adjusted profit.

## CAPITAL, LIQUIDITY AND REGULATORY CAPITAL

The business is strongly cash generative, generating net cash from operations of £18m. Cash and cash equivalents at year end were £24m.

As a business regulated by the FCA, we hold prudent levels of capital resource in order to ensure our financial stability. The Internal Capital Adequacy Assessment Process (ICAAP) is a 'living' process and is treated as a continuous exercise to ensure that we are holding sufficient levels of equity capital for the scale and nature of our operations and risk. During the year we have revised our risk and capital framework, and increased our regulatory capital requirements to reflect the expansion and underlying growth in our business.

As at 30 June 2018, adjusting for the effect of the interim and proposed final dividends, the Group holds a regulatory capital surplus of around 30% in excess of our assessed requirement.

### EMPLOYEE BENEFIT TRUST (EBT)

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.

During the year, the Group's EBT purchased 0.5m shares relating to the previous years' share awards and transferred 0.6m as a result of award vestings. The net cost of these transactions was £1.7m and is shown in the statement of changes in equity. As at 30 June 2018, the EBT held 1.8m shares. 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 2018, the Group had granted share awards which were either expected to vest, or could possibly vest, over 2.3m shares. During the Group's end of year remuneration process, the Group granted share awards over a further 1.6m shares, based upon an estimated grant price.

### DIVIDENDS

On 6 April 2018, an interim dividend of 7.6 pence per share was paid, which included a special dividend of 2.2 pence relating to net performance fees. The Directors have declared a second interim dividend of 5.5 pence per share, of which 1.3 pence is a special dividend relating to net performance fees to be paid on 2 November 2018.

In addition, the Directors are proposing to shareholders a final dividend of 5.5 pence per share, of which 2.3 pence 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 2018 are 18.6 pence per share, representing 80% of the adjusted underlying profit after tax and 100% of the net performance fee profit after tax.

**Kevin Hayes**  
Chief Financial Officer



## RISK MANAGEMENT



Sean Breslin  
Head of Legal and Compliance

**I am struck in writing the report for the end of the 2018 financial year that the opening paragraph of my report last year could be carried over almost as is.**

I had not expected that would be the case. The UK government has limped on, even weaker than it was a year ago but sustained by an opposition consumed with its own issues and, with depressing predictability, we are still no nearer to having a clear view of the post-Brexit road ahead. The markets have continued to show resilience (so far) through Korean nuclear summits and disruptive trade disputes.

However, there is an inescapable sense that we are a bit closer to the cliff edge in a number of areas, so I expect we will see greater turbulence in the not too distant future. There is a deep pool of potential catalysts to choose from but, suffice to say, I don't think I will be in a minority in stating categorically that the environment for the asset management business and our clients will look different a year from now. If the only meaningful changes are to the structure of the markets, the names of the rules we operate under and where we operate from to comply with them then we will consider ourselves fortunate. I don't expect that to be the case, which is why we have been preparing clients for a downturn.

### CONDUCT

Of course those will not be the only changes, since a year from now we will be putting the final preparations in place for the implementation of the Senior Managers and Certification Regime (SM&CR) which will apply to the Group from December 2019. Relating that to the changing macro environment, the timing is of course portentous, in that the crisis of 2007/8 was among so many other things a crisis of conduct. This new regulation seeks to address the issues of responsibility and accountability which go to the heart of good conduct.

We might hope for the best but should prepare for the worst; downturn or crisis who knows, but I would be surprised if the markets progress unperturbed. Choppy markets shake things up and when we are knocked off-balance that is when things can go awry. Solid risk management procedures, systems and controls are of course critical to safe navigation, but so is good conduct and clarity on the expectations around it.

As noted in the Chairman's statement, the Group has been strengthened at the Board level with the addition of John Misselbrook, who has experience of the SM&CR in practice. The Group has been dealing with an FCA investigation relating to competition matters, and we have also been engaged with regulators as part of the CMA's investigation into investment consultancy and fiduciary management. While neither of these has a specific conduct focus, conduct issues are nevertheless at the heart of the relevant issues, whether they relate to the effective operation of the markets, or to considerations of conflicts of interest and having a clear focus on client outcomes.

The Group has always considered itself to be a business focused on client outcomes, with conduct a core value in its thinking. In the past financial year there has been a renewed focus across the Group on the critical importance of good conduct to the success both of the Group's business and also to the achievement of clients' desired outcomes. The Chairman has emphasised this and addressed the issues head on in his statement and Angela Crawford-Ingle has described in her report on the activities of the Audit and Risk Committees some of the changes that have been or are being made to the underlying risk management infrastructure, including the separation of the Audit and Risk Committee into two standalone committees. Conduct as a broader theme has received a great deal of attention and active support from the Board and the Group's executive management, led from the front by our Chairman and by the Group's CEO Mike Faulkner.

The Group has historically treated conduct as an overlay lens for all of the Group's activities and we will continue in the coming year to develop clearer metrics and means of managing conduct risk and its impact across the Group. The Group has added Ian Iceton as Managing Director of Talent, Performance and Reward; Ian brings a wealth of experience to the role and the application of his experience, coupled with infrastructural changes and clear direction from the Board, should put the Group in a good position for SM&CR.

### BREXIT

The Group does not have a significant business presence in EU markets, but it does have a number of clients who would be impacted by a 'hard' or 'clean' Brexit that left the UK without a deal of any kind or a transition period. Despite the denial of logical self-interest on the part of both the UK and the EU, we do have to contemplate that this is now a plausible outcome. The Group's Brexit working group is finalising what its response to such a scenario should be, with the logical outcome if necessary, being the establishment of a permanent presence in the EU, probably in Ireland, to align with the Group's Irish ICAV platform and with the small number of affected clients serviced from there. The Group is engaged with Irish counsel and is making relevant arrangements which it seems increasingly likely will be necessary to avoid the cliff-edge risk of a no deal Brexit.

### THREE LINES OF DEFENCE

Changes to the risk infrastructure are described in the Audit and Risk Committee report. However, as we head into an anticipated downturn and related to the conduct considerations referenced above, the operation of the three lines of defence model is increasingly important to the Group. The effective operation and embedding of the model is critical to delivering better risk-based decision making and good conduct across the business. The decision to strengthen internal audit as a formal third line of defence with the planned recruitment of a new head of function is a recognition of the importance of this issue to the Group and the importance placed on assurance for the Board. We have also continued to strengthen the second line of defence with the hiring of a Chief Risk Officer and we are in the course of hiring a Chief Information Security Officer. At the same time, work has been done and continues to refresh responsibilities and expectations across the first and second lines of defence including clarification of risk responsibilities and ownership.

### CYBER RISKS AND INFORMATION SECURITY

Cyber related risk is neither new nor 'emerging', it has been a reality of business life for many years now and effective risk management systems are an essential requirement. The Group has bolstered its oversight in this area over the past period and will continue to do so going forward. The appointment of a CISO is intended to support those efforts.

The regulators are increasingly adopting 'regtech' or 'supotech' into their oversight of firms and markets. While that represents neither a threat nor a risk to firms per se, it does present a challenge in that the regulator is in effect requiring firms to get better at surveillance, information gathering, execution and governance if only to be able to keep up with regulatory expectations. The FCA's recent move to Stratford is advertised as facilitating the regulator's tech-based oversight capabilities, so we can only expect this theme to develop apace. This imposes an obligation on the Group to assess its technology and systems. There is no shortage of 'solutions' to every conceivable risk or compliance issue; unfortunately, many of them simply don't work. Nevertheless, the challenge for the Group remains to determine the extent and means by which it will embrace changes in technology to improve its risk and compliance systems. The Group has not pre-judged the issue but there is a risk that market standards can quickly raise around those that do not keep up; the Group will continue to assess its needs and the viability of real value-added solutions accordingly.

### EVOLVING REGULATORY ISSUES

The CMA's investigation into investment consulting and fiduciary management and the ongoing output from the FCA's Asset Market Study continue to occupy the Group. There is much to support in the output of both pieces of work which do give rise to practical issues that impact the business and have to be addressed. We would not characterise anything to date as a risk to the business of the Group, but they add to the operational workload. Some of the changes relate to issues which have either already been delivered e.g. because of MiFID II, or are work in progress, but we do not have the final position from the CMA, and the FCA has yet to determine its final view in certain areas, so a combination of vigilance and practical action remains the requirement. For example, we reasonably expect work to be required in respect of value for money assessments, governance and independence, benchmarks and fund objectives and performance, costs and disclosures among others.

The report of the Audit and Risk Committees accurately reflects the ongoing work needed to confirm that the changes introduced by both MiFID II and GDPR have been embedded and we do not take success for granted; relevant issues remain in focus. One of the MiFID II related issues which has not attracted a lot of attention post implementation has been the introduction of the PROD rules in the FCA Handbook. Arguably there is much there that should have already been operating, but the dynamic between distributor and manufacturer has changed and there is further work to be done to ensure that arrangements are operating effectively. The Group updated its relevant policies as part of its MiFID II preparation, but work is under way to review and revise them further. SM&CR brings accountabilities into sharp focus, so introducing now the rigours that will be required in just over a year's time is something we regard as important.

We know that the UK government intends, via the European Withdrawal Act, to incorporate existing EU legislation into UK law as at the time of Brexit. What we do not have a good sense of is what the FCA and/or the EU Home State regulators might do in terms of gold-plating or demand in terms of equivalency. The FCA's Temporary Permission Regime provides welcome assurance for inbound business and it appears that we can have confidence that, as advertised, the FCA will deliver that which is within its gift in terms of inbound business, but there remains uncertainty on the future direction of travel. There are big unanswered questions such as who will replace the UK at the EU's regulatory top table; the answer is likely to shape the UK's desire and ability to move in tandem and retain equivalence (if there is any). There is also the background issue of the revisiting and refreshing of existing EU legislation (e.g. MiFID and EMIR) and the development of new initiatives e.g. the EU's action plan on sustainable investing all without a voice from the UK – so there is much to keep in mind.

Prudential developments cannot pass without mention. Exactly what will happen with the upcoming proposed changes to prudential requirements in the absence of a transition period remains uncertain, though on an equivalency basis it would be reasonable to expect the FCA to follow ESMA and implement the new requirements (probably in 2020). The issue remains very much on our radar.

**Sean Breslin**  
Head of Legal and Compliance

## RISK MANAGEMENT CONTINUED

### PRINCIPAL RISKS AND UNCERTAINTIES

The following table summarises the principal risks and uncertainties considered most relevant to our business. See note 28 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.

Gold cells are those which the Group considers to be the most significant in

threatening the Group’s business model, future performance, solvency or liquidity.

Changes in risk level – the Board recorded an increase last year in relation to risks associated with regulation. Following the implementation of MiFID II and GDPR in the first half of 2018, there might reasonably be a reduction in risk for the year 2018-19, but the reality is that successful embedding remains an ongoing risk, so the level of risk exposure to risks associated to regulation remains unchanged. As has been described elsewhere in the report, the Group does not have significant client exposure to risks associated with the UK’s withdrawal from the

EU. Nevertheless, the broad risks and those to the markets associated with a no-deal Brexit are considered to be higher than they were a year ago. The Group relies on outsourced IT infrastructure to support its business; in the context of an increase in risks related to cyber-attacks, it is reasonable that those risks have increased further as criminals and hackers become more sophisticated. The Group has increased its investment in governance and testing of IT systems and information security as a result; and is in the process of recruiting a Chief Information Security Officer.

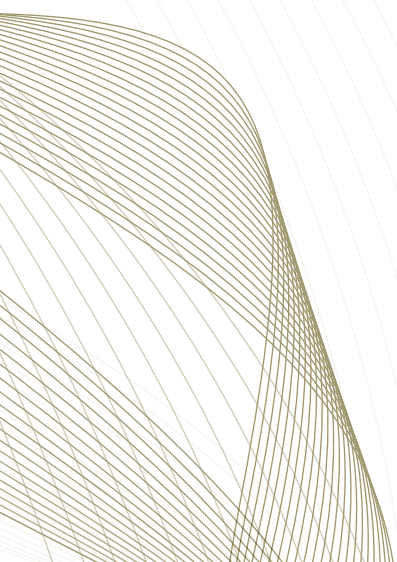
FCA principle	Definition	Risk and outcome	Mitigations
<b>Integrity</b>	A firm must conduct its business with integrity.	With the diverse offering that the Group provides, conflicts of interest could arise if not properly managed, undermining the Group’s ability to deliver the best outcomes for clients.  Reputational damage could lead to a loss of clients, reduction in AUM and/or NUM and a reduction in the profitability of the Group.	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.  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.  Our ethos is to deliver against the desired outcomes of our clients and other stakeholders. 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.
<b>Conflicts of interest</b>	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.	Each client determines the nature of their engagement with us, including the range of products and services which are appropriate. 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 that clients drive the engagement, their interests are promoted and the risk of damage to them and potential conflicts are limited.
<b>Skill, care and diligence</b>	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.	Policies, procedures and ongoing training is provided covering product and services, Know Your Customer, anti-money laundering, Treating Customers Fairly and other areas of compliance.  We have formal processes of training and accreditation to advance and motivate our employees in order to support the continuity of our client engagement business model.  Our remuneration structures are designed to motivate and support the development of our employees and provide incentives linked to their individual, divisional and Group performance.  Succession plans identify employees with the potential to fill key business leadership positions.



FCA principle	Definition	Risk and outcome	Mitigations
<b>Management and control</b>	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 reputation damage.	Effective Group oversight and governance through Board of Directors and Board Committees. Experienced and knowledgeable employees with appropriate segregation of roles and responsibilities.
<b>Market conduct</b>	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 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 Group seeks to develop IT infrastructure diversity, for example in having redundant connections to key data centres. The Group maintains business resilience measures and disaster recovery capabilities which include remote working facilities, back-up IT environments and disaster-recovery testing.
		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.
<b>Financial prudence</b>	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 proactively to respond to a client's changing requirements and exposure.
<b>Relations with regulators</b>	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.	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.	Our focus on client outcomes aligns us with our clients and results in a business with low attrition rates. This creates a sustainable business which is therefore less subject to cyclical effects. This allows us to grow, attract and retain our client and investment talent. A sustained reduction in AUM as a result of adverse market movements could result in a corresponding reduction in management and performance fee revenue. This may be partly offset by an increase in our advisory revenues as clients re-evaluate their investment and hedging strategies. In the short to medium term we can adjust our cost base, particularly remuneration which is variable with our overall economics. As a regulated entity, the Group and some of its subsidiaries are required to hold 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.
		A breach of regulatory requirements could result in fines and sanctions which could diminish the Group's reputation with clients and the market generally. Regulatory changes as a consequence of Brexit may lead to increased levels of regulatory capital or costs of compliance.	Regulatory changes are monitored by the Group's Compliance and Legal functions and an active dialogue is maintained both with our clients and with regulatory bodies so that we can understand and adapt business model and strategy accordingly. Finance and Compliance functions operate processes and controls to ensure the timely and accurate submission of information to the FCA.

## RISK MANAGEMENT CONTINUED

FCA principle	Definition	Risk and outcome	Mitigations
<b>Customers' interests</b>	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>	
<b>Communications with clients</b>	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 chosen 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.	<p>The client engagement process is based on engagement with regulatory approved investment professionals and advisors who develop with the client their desired client outcomes.</p> <p>Suitability is assessed by experienced and approved personnel who work closely with clients to understand their needs and desired outcomes to develop tailored solutions.</p> <p>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.</p> <p>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.</p>
<b>Customers: relationships of trust</b>	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.	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.	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
		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.	<p>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.</p> <p>Underlying liquidity within funds is monitored, and adjusted as market conditions dictate.</p> <p>Compliance and Risk, which operate alongside the business but have independent reporting lines, act as a second line of defence in respect of the investment management process.</p> <p>A culture of client engagement, based on conduct and fairness, fosters an open and honest dialogue regarding investment performance relative to the stated outcomes.</p>
<b>Clients' assets</b>	A firm must arrange adequate protection for clients' assets when it is responsible for them.	Failure of third-party custody arrangements lead to client losses.	<p>The Group does not provide custody services.</p> <p>Through the client-led engagement process, clients either select their own custodian or, in agreement with the business, reputable providers are chosen to ensure appropriate protection of client assets.</p>





## 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.

The viability process was run closely with the financial modelling for the ICAAP (the Individual Capital Adequacy Assessment Process), involving business heads, divisional COOs, and senior representatives from Finance, Risk, and Compliance.

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, the risks 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 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 significant macro-economic stress, as it tests the resilience of the business over a longer period than a short shock (due to the lack of recovery);
2. The loss of key investment personnel within the Group, leading to outflows of assets; and
3. The occurrence of both events at the same time.

In the prior year, the Group did not consider the simultaneous occurrence of two stresses, but also considered the Prudential Regulatory Authority's 'Base Case' macro-economic stress. This is less severe than the first scenario used, and therefore its inclusion was deemed to not add value, with the addition of an occurrence of both internal and external stresses (scenario 3) being a more useful approach to take.

The scenarios were evaluated using the Group's 2018/19 budget and three year financial projections as a starting point, with the impact of changes on revenues and costs as a result of each scenario added to the model.

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. Where management actions were assumed to occur in order to reduce costs or otherwise protect regulatory capital, cash or profits they were subject to rigorous challenge to ensure they were feasible, both in scope and timing.

The Group's balance sheet, cash and regulatory capital positions in each scenario were modelled by Finance by applying known historical 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 three, however in each scenario the Group remained profitable on an adjusted basis, 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 28;
- 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 27;
- 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); and
- The current strong starting profit levels, combined with a dividend policy which pays dividends based upon actual profits including performance fees, 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. Several other scenarios were considered, but dismissed as less severe as a result of controls in place. This included the failure of a critical outsource, particularly IT due to the heavy reliance placed on systems and software in the business. This scenario was not chosen for several reasons, including the results of successful disaster recovery testing with minimal latency, physical mitigations such as diverse communication lines and data centres and real-time disaster recovery copies allowing for fast redeployment.

## PEOPLE



**Ian Icton**  
Managing Director – Talent, Performance  
and Reward

### PEOPLE DEVELOPMENT

The business continues to increase its focus and investment on developing our people. This has included creating the new post of Head of Talent, Performance and Reward, which I now occupy. Further investments in key HR positions will follow, to provide more direct support to our line managers. 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 2017/18 this number was 9%.

Our talent management philosophy is based on:

#### Principles:

Our principles are the things that define what and who we are.

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

**Authenticity:** One of the important things that 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, however 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.

We protect the rights of our employees through our employment policies and practices, which prohibit discrimination and encourage inclusion. We have a Diversity and Equal Opportunities policy which requires that all employees and job applicants are treated fairly and equally.

We are supportive of the focus on diversity in the 2018 Code (defined in the Corporate Governance section hereafter). We believe that we have a strong and diverse talent pool which we are focused on developing into the senior managers of the future. Accordingly, we have decided to early adopt disclosure of the gender balance of senior management and their direct reports, as required by the 2018 Code which follows the recommendation of the Hampton-Alexander FTSE Women Leaders Project.

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.

#### Reward and recognition

The business operates a competitive reward and recognition system, which incorporates a very popular opportunity for all employees to invest in the business via a save-as-you-earn scheme (currently we have 120 employees who are part of this programme – over half of those eligible). In addition, a further 70 employees were awarded equity participation in the business as part of the end of year compensation round as recognition of their commitment and contribution to the business; philosophically it is important to us that as many employees as possible, through these two mechanisms, share in the rewards of equity ownership of the business, aligning their interests with outside shareholders.

## VALUES

Values describe the behaviours that the business considers to be critical to success. Behaviours not consistent with the values are not acceptable, and are dealt with quickly.

### PASSIONATE ABOUT CLIENT SUCCESS

We expect our people to be passionate about client success. We care about our clients. We gauge this by whether clients believe our commitment.

### CREATIVE – INVOLVING, CHALLENGING AND CONVINCING OTHERS

Creativity is critical to our client proposition. We aim to keep reinventing ourselves to achieve our business objectives of growth and to avoid becoming commoditised. This is best achieved by bringing together diverse people to debate issues. We therefore seek to hire and advance people who are creative, who involve others to get higher quality input and are comfortable challenging. In debate, we do not recognise hierarchy, only the quality of the argument.

### OPEN, CANDID AND CONSTRUCTIVE

We expect our people to be open with information and their views. We expect people to be candid, particularly in the management of others and want all interaction to be constructive.

### DEMANDING OF OUR BEST

We aim to 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.

### COMMERCIAL IN ALL THAT WE DO

Commerciality means more than just profitability. We aim to engage in client relationships in a way that works for both the client and our business. Ultimately, commerciality is about how we balance risk and cost against potential reward.

### Gender balance as at 30 June 2018<sup>1</sup>

Position	Female
Directors	1 of 9
Managing Directors (meeting the definition of senior manager in the Companies Act 2006)	3 of 27
Senior managers (as per 2018 Code definition)	2 of 13
Senior managers' direct reports	11 of 22
Total employees, partners and Directors of the Group	69 of 237

<sup>1</sup> We are required by the Companies Act to include the gender balance of our Board and senior managers. We have previously reported on an internal 'P11' category, the highest pay grade. The Companies Act definition of a senior manager is a person who has responsibility for planning, directing or controlling the activities of the Company or is strategically significant.

Our employees have been recognised within the industry as high performing via a number of nominations and awards, including the 2018 Financial News Rising Star awards and three nominations in the Professional Pensions Women in Pensions awards 2018. Our employees also regularly present at a number of key industry conferences and publish articles on pension and other issues in print and on line.

### Work/life balance and health and wellbeing

We encourage a balanced approach to working and offer flexible working arrangements to all employees. We also provide all employees with an opportunity to be covered by a comprehensive medical insurance scheme, which incorporates many health and wellbeing features, including personal wellbeing assessments; workshops on key topics like managing stress; and lifestyle. This scheme also incorporates a series of voluntary additional staff benefits.

We are a strong supporter of, and offer to all staff, the opportunity to benefit from childcare vouchers and cycle to work salary sacrifice schemes.

### Recruitment

Our policies instil in our hiring managers the commitment to fair and equitable treatment of all employees and applicants in the recruitment process. During the year we have made some important strategic appointments to roles in the UK, the US (opening up a New York office) and Australia.

### 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.

### Training, development and professional qualifications

We support a whole range of general and management training, including offering time and financial assistance to those staff members undertaking professional qualifications. On average staff have benefited from 1.5 days formal training in the year. We are fully supportive of Modern and Professional Apprenticeships, we pay the Apprenticeship Levy, and look to ensure those funds are re-invested in our staff across all areas of the business. During the year 29 employees have passed formal qualifications, with another 10 undertaking ongoing study supported by the business.

### Social responsibility

This year we have established a staff-led Charity Committee, which coordinates a variety of activities across the employee group, raising funds for a nominated charity each year, and allowing employees to earn matching funding from the Company for other registered charities they are supporting. We have also decided to offer all staff the opportunity to undertake paid charitable volunteering time, of two days per person per year.

In conjunction with the Social Mobility Foundation, we offered some of the places this year on our summer intern programme to young people from a variety of backgrounds.

### Modern slavery

We are committed to preventing acts of modern slavery and the occurrence of human trafficking in our business and supply chain. We expect our suppliers to uphold human rights and we will not tolerate modern slavery or human trafficking in our supply chain. We have developed an anti-slavery policy and have surveyed our largest suppliers for compliance with the Modern Slavery Act.

Our modern slavery statement is published on our website.

### Ian Iceton

Managing Director – Talent, Performance and Reward

## CORPORATE RESPONSIBILITY

# STEWARDS OF THE ASSETS ENTRUSTED TO US

## INVESTING

The Group considers issues of stewardship and the responsible investing when making investment decisions and engaging with its clients. As the Group combines asset management and institutional solutions, stewardship on behalf of our clients varies between divisions. The Equities division has direct engagement with companies, whilst Solutions ensure the underlying asset managers selected are fulfilling their obligations in this area.

### Equity Solutions

As equities managers, both the PVT (UK and Global) and ILC (Emerging Markets) teams believe that we are stewards of the assets entrusted to us by our clients and have a fiduciary responsibility to our clients to achieve strong financial returns over the medium term. We believe the management of ESG issues is important for the sustainability of the companies in which we invest and hence important for delivering strong long-term financial returns to our clients. Consequently, we have extended our investment process to include the assessment of ESG risk and opportunities when we analyse and review companies.

We strongly believe the best way to improve management attitudes is through engagement and peer group pressure, rather than solely excluding a company on 'ethical' grounds, unless specifically requested by a client. We mainly engage on governance issues, but will do on 'environmental' and 'social' as appropriate. Even in 'dirty' or 'unethical' industries we believe it is important for shareholders to assert pressure on companies to operate in the most environmental and social manner within the limitations of a particular sector. Engagement may take the form of voting against management or establishing a dialogue with management.

Engaging with companies can be an important part of the investment process for both teams. For the PVT team, in meeting companies we focus on developing and testing our thesis for buying or holding a stock, evaluating management and improving an understanding of the business and strategy. Separately, we may hold meetings or calls with board chairmen and/or non-executive directors to discuss particular stewardship matters. Annually we have around 400 company meetings and during the year to 30 June 2018, we engaged with 26 companies on stewardship-related issues. Company meetings are not specifically part of the ILC process, however in certain cases, contact with companies is made as part of the due diligence process.


We regard voting at company general meetings as an important aspect in improving the stewardship of a company in the interests of all stakeholders. The fundamental principles of our voting policy are included in the RAMAM corporate governance voting and engagement policy and applied in the vast majority of cases. We discourage passive box ticking and aim to take an informed and pragmatic approach to voting. We will give due consideration to the specific circumstances and facts available to each investor before voting. For UK companies, we support a 'comply or explain' approach to corporate governance and generally endorse the UK Corporate Governance Code. We expect UK companies to explain and justify any reasons for non-compliance, and to outline their plans for compliance in future. In the case of non-compliance, we reserve the right to accept or reject the explanation. For non-UK companies, we are supportive of similar codes.

The overriding objective of the companies we invest in should be to optimise over time the returns to its shareholders. Where other considerations affect this objective, we believe they should be clearly stated and disclosed. To achieve this objective, the company should endeavour to ensure the long-term viability of its business, and to manage effectively its relationships with stakeholders.





  
***We have extended our investment process to include the assessment of ESG risk and opportunities when we analyse and review companies.***


  
***We discourage passive box ticking and aim to take an informed and pragmatic approach to voting.***

In the year to 30 June 2018, we voted at 1,009 company general meetings, voting against management on at least one resolution at 64% of these meetings. During this period, we appointed a director of ESG within the investment team, recognising that the analysis of ESG risks/opportunities is becoming an integral part of our company research process and to increase our direct engagement with companies.

More information on our approach to stewardship is available on the Group's website ([www.riverandmercantile.com](http://www.riverandmercantile.com)), including RAMAM corporate governance voting and engagement policy and UK Stewardship Code statement. Separate to this, the Group is also in the process of signing up to the UN backed Principles for Responsible Investment (UNPRI) and expects to be a signatory within the next year.

#### **Solutions**

As an investment consulting and fiduciary management business, River and Mercantile Solutions have been evolving our approach to ensure ESG issues are integrated into our investment processes and client engagement.

Over the last year, we have enhanced our manager research process and engagement with buy-rated managers on ESG, and continue to work towards ensuring ESG is fully integrated into our investment process. We are engaging with our clients by adding an ESG assessment into our quarterly monitoring reports, manager rating and manager selection documentation as well as providing briefing notes and training on ESG. This has been aided by ensuring our consultants are appropriately trained to deal with ESG issues and indeed they have attended a number of presentations from external managers.

We have also signed up to an industry initiative (driven by UK Sustainable Investment and Finance Association and Association of Member Nominated Trustees), where we commit to increased engagement both with our staff but also clients on these issues.

#### **ENVIRONMENTAL MATTERS: GREENHOUSE GASES**

We have our primary offices in London, Boston and Chicago, and are establishing a presence in New York and Australia. 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 5% 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**

The Group's calculated emissions figure is 1,166 tonnes of CO<sub>2</sub>, including all travel and commuting.

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 report that the Group has once again been certified carbon neutral by Natural Capital Partners.

By order of the Board.

**Jonathan Dawson**  
5 October 2018



## BOARD OF DIRECTORS



### JONATHAN DAWSON

Chairman

#### Background and experience

Jonathan was appointed to the Board on 1 October 2017.

Jonathan has extensive financial services, pensions and non-executive experience. Jonathan started his career in the Ministry of Defence before joining Lazard, the investment bank, where he spent over 20 years. He left Lazard in 2005 and cofounded Penfida Limited, the leading independent corporate finance advisor to pension fund trustees.

Jonathan currently serves as a non-executive director and chair of the remuneration committee of National Grid plc and is the chairman of Penfida Limited.

Most recently Jonathan served as senior independent director and chair of the audit and risk committee of Jardine Lloyd Thompson Group plc. Jonathan previously served as senior independent director and chair of the remuneration committee of Next plc. Jonathan has also chaired three pension scheme boards of trustees. Other previous appointments include non-executive director of GallifordTry plc, National Australia Group Europe Limited and Standard Life Investments (Holdings) Limited.

#### Committee membership

– Nominations Committee (Chair)



### MIKE FAULKNER

Chief Executive Officer

#### Background and experience

Mike founded River and Mercantile (formerly P-Solve) Investments Limited in 2001 to offer proactive and strategic advice to pension scheme trustees and corporate clients. River and Mercantile Investments Limited became one of the first investment consultants in the UK to offer Fiduciary Management to pension schemes.

He has 27 years of consulting and asset management experience, including senior roles with what is now Willis Towers Watson Ltd and Gensec International. Mike ranked top of Financial News's annual survey of Europe's most influential asset managers in 2011.



### JAMES BARHAM

Deputy Chief Executive Officer

#### Background and experience

James founded River and Mercantile Asset Management (RAMAM) in 2006 with the backing of Pacific Investments Management Limited and was its Chief Executive Officer until merger in 2014. He was previously part of the team which founded and floated Liontrust Asset Management plc, where he was responsible for the institutional business. This followed senior roles with Shandwick Consultants and James Capel Investment Management and as sales and marketing director for Intermediate Capital Group plc. James served in the Royal Welch Fusiliers after completing his education at the Royal Military Academy Sandhurst.



### ANGELA CRAWFORD-INGLE

Senior 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 committee.

#### Committee membership

– Audit Committee (Chair)  
– Risk Committee  
– Remuneration Committee  
– 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' acquisition by Schroders plc in July 2013.

#### Committee membership

– Audit Committee  
– Risk Committee  
– Remuneration Committee (Chair)  
– Nominations Committee



**JACK BERRY**  
Executive Director

**Background and experience**

Jack established River and Mercantile Investments Limited's advisory 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.



**KEVIN HAYES**  
Global Head of Solutions and  
Chief Financial Officer

**Background and experience**

Kevin is an international CFO with 25 years' experience in financial services.

Kevin began his career at Ernst & Young and was a partner in the New York office covering financial services audit and consulting clients. He moved to Lehman Brothers where he held various roles including: Global Capital Markets controller, international CFO for Europe and Asia and head of productivity and process improvement. In 2007 Kevin joined Man Group PLC in London as group CFO and executive director on the group board. He was also a trustee of the Man Group PLC pension plan.



**JOHN MISSELBROOK**  
Independent Non-Executive Director

**Background and experience**

John was appointed to the Board on 16 February 2018.

John has extensive financial services and non-executive experience. John currently serves as chairman of JPMorgan Chinese Investment Trust PLC, chairman of Northern Trust Global Services Plc and as a non-executive director and chairman of the risk and remuneration committees of Brown Shipley & Co. Limited. John was formerly chairman of Aviva Investors and served as the chief operating officer of Baring Asset Management Limited for 11 years.

**Committee membership**

- Audit Committee
- Risk Committee (Chair)
- Remuneration Committee
- 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 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, he began his career with Duncan C Fraser, where he was a partner.

## CORPORATE GOVERNANCE REPORT



**Jonathan Dawson**  
Chairman

### COMPLIANCE WITH THE CODE

The Board recognises the benefits of good corporate governance and is committed to the principles of corporate governance contained in the UK Corporate Governance Code (the Code), issued by the Financial Reporting Council (FRC) in April 2016. This section of the Annual Report describes how the Company has applied the main principles set out in the Code.

The Code is available from the FRC's website (<https://www.frc.org.uk/directors/corporate-governance-and-stewardship>).

The Board has carried out a review of their compliance with the relevant Code provisions throughout the year and confirms that the Company has complied with the relevant provisions of the Code.

In November 2017, the FRC announced a consultation on a fundamental review of the 2016 Code. The Company carefully reviewed the proposed changes to the Code and submitted a response to the FRC consultation. On 24 July 2018, the FRC published the revised Code (the 2018 Code) which will apply to the Company from 1 July 2019. The 2018 Code is one of the key elements of the changes to the UK corporate governance framework recommended by the government.

The Board ensures that it keeps up to date with corporate governance developments and best practice. The Board has assessed the implications of the 2018 Code and will be working over the next year to implement the changes required to ensure compliance with the 2018 Code.

### Board and Committee member attendance for the period ended 30 June 2018

Director	Board quarterly	Board ad hoc	Audit and Risk	Audit	Risk	Remuneration	Nominations
<b>Meetings held during year</b>	<b>4</b>	<b>10</b>	<b>5</b>	<b>1</b>	<b>1</b>	<b>9</b>	<b>2</b>
James Barham	4	9	n/a	n/a	n/a	n/a	n/a
Jack Berry	4	9	n/a	n/a	n/a	n/a	n/a
Angela Crawford-Ingle	4	8	5	1	1	4/4	2
Jonathan Dawson (appointed 01/10/17)	3/3	7/7	3/3	n/a	n/a	2/2	1/1
Mike Faulkner	4	9	n/a	n/a	n/a	n/a	n/a
Kevin Hayes	4	10	n/a	n/a	n/a	n/a	n/a
Robin Minter-Kemp	4	10	5	1	1	9	2
John Misselbrook (appointed 16/02/18)	1/2	3/4	n/a	1/1	1/1	4/4	0/0
Jonathan Punter	3	8	n/a	n/a	n/a	n/a	n/a
Peter Warry (retired 31/10/17)	1/1	3/3	n/a	n/a	n/a	n/a	1/1

Where a Director has been appointed or has retired, meeting attendance is shown against the number of possible meetings they could have attended rather than the annual number of meetings.

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.

## LEADERSHIP

The Board has provided the Company with entrepreneurial leadership and is responsible for the long-term success of the Company.

### CHAIRMAN

During the past financial year, Peter Warry retired as Acting Chairman and Senior Independent Director. Following the Nominations Committee process detailed below, Jonathan Dawson was appointed as Chairman on 1 October 2017. Peter Warry retired on 31 October 2017.

The roles of the Chairman and the Chief Executive Officer are clearly established. Jonathan Dawson is responsible for the leadership of the Board, setting the Board's agenda and ensuring constructive relations between Executive and Non-Executive Directors (NEDs). He also maintains appropriate contact with major shareholders in order to understand their concerns, if any, relating to governance, strategy and remuneration.

Mike Faulkner, as Chief Executive Officer, is responsible for the day-to-day management of the Company.

### BOARD COMPOSITION

As at 30 June 2018, the Board comprised nine directors: the Chairman, three independent NEDs, a non-independent NED and four Executive Directors. As the Company is a smaller company, as defined in the Code, it is in compliance with the Code requirement B1.2 relating to the number of independent Directors on the Board.

No individual or group of individuals dominates the Board or its decision making.

The NEDs provide constructive challenge in respect of matters before the Board and help to develop proposals on strategy. The Board is satisfied that the NEDs provide a robust and independent element on the Board. They bring well-considered and constructive opinions, skill and knowledge to Board discussions. The Chairman holds meetings with the NEDs without the Executive Directors present on a regular basis.

Following the retirement of Peter Warry, Angela Crawford-Ingle was appointed as the Senior Independent Director (SID).

The Board decided to split the Audit and Risk Committee into two separate committees to allow for each committee to have sufficient time to consider audit and risk matters on a standalone basis. In February 2018, the Board appointed John Misselbrook as Non-Executive Director to chair the newly formed Risk Committee.

The first separate Audit Committee and Risk Committee meetings were held in May 2018.

All Directors are subject to annual re-election at the Company's AGM.

## INDEPENDENCE

Angela Crawford-Ingle, Robin Minter-Kemp and John Misselbrook have been determined by the Board to be independent (the iNEDs). The Board has determined that each iNED is independent in both character and judgement. There are no relationships or circumstances which are likely to affect or appear to affect the iNEDs judgement or independence.

On appointment, Jonathan Dawson met the independence criteria set out in the Code.

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.

### APPOINTMENTS TO THE BOARD

The Board has established a Nominations Committee to lead the process for Board appointments and to consider the balance of skills, experience and knowledge on the Board. The Nominations Committee ensures that there is a formal and rigorous process for appointments to the Board.

During the course of the past financial year, the Nominations Committee has led the process for the appointment of Jonathan Dawson as Chairman and John Misselbrook as NED and chair of the Risk Committee.

This process involved the development of objective criteria for each role and the appointment of an external recruitment agency to conduct a candidate search – this agency was independent and had no connection to the Group. A long-list of potential candidates was provided to the Nominations Committee for review and following such review, a short-list of candidates for interview was finalised. A series of interviews were held with the prospective candidates by the NEDs and Executive Directors. Feedback from these interviews was provided to the Nominations Committee.

Both the appointment of Jonathan Dawson as Chairman and John Misselbrook as NED and the Chair of the Risk Committee, were unanimously recommended by the Nominations Committee.

The Nominations Committee also considered and recommended to the Board the appointment of Angela Crawford-Ingle as SID.

Appointments to the Board are made on merit and are based on an evaluation of the skills and relevant sectoral experience of the candidates. The Board has not established a formal policy on diversity to date – it is however on the agenda of matters to be considered in the 2018/19 financial year as part of a broader people strategy project.

The Nominations Committee and Board are cognisant that diversity is more than gender and are committed to a diverse and inclusive workforce. The Company has appointed Ian Iceton as the Managing Director of Talent, Performance and Reward to oversee the implementation of the Group's talent management strategy and career development for all staff. Further details about diversity in the Group are contained in the corporate responsibility report on page 40.

New Directors are given a tailored induction arranged by the Company Secretary, which includes meetings with senior management, including the Head of Legal, Risk and Compliance and relevant business heads across the Group's operating divisions.

### COMMITMENT

The Board requires all Directors to devote sufficient time to their duties and to use their best endeavours to attend meetings.

During the past financial year, the NEDs' letters of appointment were reviewed and updated. Each letter of appointment sets out the time commitment required for the role and sets the term of the appointment for three years. As part of the Nominations Committee's appointment process, other significant commitments of candidates are considered and any new appointments or significant interests are required to be approved by the Nominations Committee.

### ROLES AND RESPONSIBILITIES

The Board meets on a scheduled quarterly basis and on an ad hoc basis as required. The Board attendance of the Directors is set out in the table on page 44.

A comprehensive set of papers is circulated before Board and Committee meetings using an online board pack portal. The Company Secretary advises the Board on all governance matters. All Directors have access to the Company Secretary's services and advice.

The Board has a formal schedule of matters reserved for its decision. Examples of these matters include the approval of the annual operating and capital expenditure budgets and any material changes to them, the approval of major capital projects and appointments to and removals from the Board.

### COMMITTEES

The Board has established Nominations, Remuneration, Audit and Risk Committees. The composition of these committees complies with the requirements of the Code. The Company Secretary advises and supports these Committees.

The Chairman is not a member of the Remuneration, Audit and Risk Committees, but attends these meetings at the invitation of the Chairs of the respective committees.



## CORPORATE GOVERNANCE REPORT CONTINUED

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

### PERFORMANCE EVALUATION

The Executive Directors have been evaluated 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.

Jonathan Dawson's formal appraisal will take place within the next financial year before the anniversary of his appointment, and will be led by the SID with the NEDs. However, during the year, Jonathan has had a performance evaluation with the SID as part of an internal Board and Committee evaluation process which was coordinated by the Company Secretary.

The evaluation process involved the completion of anonymous questionnaires collated by the Company Secretary and a series of one-to-one meetings with the Chairman. The evaluation process 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 Board and its Committees are operating effectively and to a high standard of governance. The SID has led the review of the performance evaluation of the Chairman through one-to-one meetings with the NEDs and Executive Directors. This is supplemented by the Board evaluation process which also evaluates the performance of the Chairman.

### 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.

### 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 is able to nominate a NED to the Board – Jonathan Punter is PSG's nominated NED.

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 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.

**Jonathan Dawson**  
Chairman



## AUDIT AND RISK COMMITTEE REPORT



Angela Crawford-Ingle  
Chair, Audit Committee

**In last year's report I noted that a key area of focus was enhancing the Group's risk-based compliance oversight. Accordingly, an ongoing assessment of the effectiveness of our compliance function and related systems and controls has been central to the work of the Committee in the period.**

Changes have been delivered, and improvements have been and continue to be made, but in a time of business expansion and ongoing regulatory change we don't propose to ease up as we seek to deliver continuous improvement. We have added to the resources performing this critical second line function and will continue to do so; we expect more from them accordingly. The majority of the oversight will pass to the Risk Committee going forward but as a member of that Committee and aligned with the other members of the Board, I will be making sure that we keep the pressure on to deliver.

This year we will be increasing our oversight of risk itself in the business and its management across the Group and this has been reflected in changes to the Board and Board Committees.

In February, the Group welcomed John Misselbrook to the role of Non-Executive Director. John brings significant experience of risk matters to the Group – his other roles include chair of the risk committee of Brown Shipley & Co. Limited, and he was formerly chairman of Aviva Investors and COO of Barings Asset Management Limited.

A combined Audit and Risk Committee structure was appropriate for the period since IPO, however the growth of the Group and the evolving regulatory climate means we had reached a stage where audit and risk matters were better dealt with in separate forums. Therefore, the Audit and Risk Committee has been split into separate Audit and Risk Committees, with the first formal meetings under the new remits held in May. The terms of reference for both Committees can be found on the Group's website ([www.riverandmercantile.com](http://www.riverandmercantile.com)).

I have remained as Chair of the Audit Committee, with John chairing the Risk Committee. As the combined Audit and Risk Committee structure was in place for the majority of the year I am providing a single report covering both areas; but we will provide separate reports next year. As a result, references in this report to 'the Committee' encompass both old and new Committees for the year under review.

We believe that this new structure provides a clearer focus on risk, and is supported by changes within the business, including the appointment of a standalone Chief Risk Officer for the Group, who has now joined us. This represents an ongoing journey for the Group, and we look forward to reporting on further improvements in next year's Annual Report.

### REGULATORY CHANGE

Whilst the potential challenges associated with the UK's withdrawal from the EU increasingly loom large, there have continued to be a number of significant regulatory changes which the Group has had to manage; in particular MiFID II and GDPR.

January 2018 saw the implementation of MiFID II, the scale and impact of which, as most are aware, is hard to underestimate. I am pleased that implementation across the Group has been dealt with in a calm and orderly fashion. Like many organisations we did have some teething troubles, for example in respect of transaction reporting systems, but attention has turned now to seeking assurance as to the successful embedding of relevant changes and compliance with the requirements.

## AUDIT AND RISK COMMITTEE REPORT CONTINUED

Not all of the impact of MiFID II will be seen until firms have to deal for the first time with new requirements which are in certain cases required to be performed or reported on annually post implementation. So while the implementation date may have passed I consider that in many ways to have been the 'end of the beginning'; success in respect of certain of the real challenges remains to be proven so we do not relax our vigilance.

The implementation in May of the General Data Protection Regulation (GDPR), an EU wide initiative to enhance protection for individuals with respect to their personal and sensitive data is a similar case. As for MiFID II, a tremendous amount of pre-implementation effort was required with clients, third-party service providers and internally and this too was handled calmly, but the real work of measuring the success with which change has been embedded begins now and we take nothing for granted. The Group was not required to nor has it appointed a Data Protection Officer for GDPR purposes but it has promoted a member of the legal team to act as Privacy Officer to oversee GDPR related matters.

Finally, in July 2018 the CMA released its provisional decision report and recommendations following its investigation into the investment consulting and fiduciary management market. As with the other matters the Group responded well to the demands placed upon it in providing a very significant number of data items to the CMA over the period of the investigation. The CMA's report is a complement to the FCA's ongoing work on the implementation of change post its Asset Management Market Study. That work continues and will deliver requirements for change which the business will need to react to. Across both reports there is much to support in the calls for more effective competition, better client outcomes, clearer disclosure in all areas to facilitate those outcomes and greater governance and accountability. The output from the CMA and FCA reports will certainly occupy both the Audit and Risk Committees in the coming period.

Whilst we naturally welcome many of the changes brought about by the matters above, there is no escaping the fact that responding to them can put operational strain on a small organisation such as our own. I would therefore like to personally thank the many people involved for their hard work during the year and on a continuing basis in facilitating such positive outcomes. We see the pace of change continuing, and this will continue to require our focus and resource.

### OTHER SIGNIFICANT EVENTS

There were two other events this year in which the Committee was closely involved.

The first was the FCA Competition matter, which from an accounting standpoint led to the recognition of a provision of £1m in the interim accounts, which was subsequently reduced to £109,000 following specific guidance from the FCA. This matter was treated with the utmost seriousness. A thorough investigation was immediately undertaken – both internally and with the assistance of outside counsel – to not only identify the specific facts of the matter, but also to rigorously examine the Group's relevant policies, controls and processes for any weakness or gap. Where necessary, changes and improvements were made to reflect the lessons learnt and these changes were, in turn, independently tested to assess their effectiveness. We have cooperated fully with the FCA throughout and continue to do so.

The second was the dismissal of a portfolio manager for professional conduct breaches. These matters are rarely easy and require sensitive consideration, but management showed decisiveness in making a difficult, but necessary decision.

### MEETING ATTENDANCE

The Audit and Risk Committee met five times during the year, with the separate Audit and Risk Committees meeting once each. The Committees invite other participants as appropriate, including the Chairman; divisional COOs; the Group CFO; Deputy CFO; Head of Legal, Compliance and Risk; external parties in addition to the auditors such as service providers and insurers; and other Directors who are not Committee members. The Committee also holds executive sessions with only Committee members present, from time to time.

### EXTERNAL AUDITOR INDEPENDENCE, OBJECTIVITY AND EFFECTIVENESS

The Committee has reviewed auditor independence at a number of meetings and is satisfied that the auditor remains independent and objective.

During the year the auditor has provided effective challenge on a number of issues, including the ongoing disclosure and recognition of amounts in respect of the FCA competition matter and the review of subsidiary investments for indications of impairment. The Committee has found that they demonstrate professional scepticism when reviewing the positions taken by management on significant matters which affect the financial statements, including those discussed below.

The auditor has attended all meetings, and has input into discussions at those meetings. In doing so, I believe that they have helped to ensure that decisions are appropriately weighted by adding robust and constructive challenge.

### EXTERNAL AUDITOR APPOINTMENT

The re-appointment of BDO LLP was approved by shareholders at the 2017 AGM, with 99.8% of the votes cast being in favour of the motion. The Committee has considered the continuing appointment of BDO LLP as the Group's external auditors and is satisfied as to the scope of the audit. The Committee has also reviewed BDO's remuneration.

BDO LLP has been the Group's auditor since IPO in 2014, and the Committee has recommended its re-appointment for the coming year to the Board. Under the Statutory Audit and Third Country Auditors Regulations part 3, the Group is required to ensure the audit is subject to a public tender not later than 2024.

### INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

At each meeting, the Committee receives reports from the divisional COOs covering relevant control and risk issues. We also receive reporting from Compliance and Legal functions on matters of relevance, including in respect of emerging risks. The new Chief Risk Officer has joined us with a remit to assess the effectiveness of all risk systems and controls, and to improve their robustness, means to measurement and the quality of resulting risk management information, we look forward to taking our risk management oversight to the 'next level'.

I am the Group's whistleblowing champion and the Committee has also recently reviewed the operation and effectiveness of the Group's whistleblowing processes, systems and controls, by which staff may, in confidence, raise concerns about possible wrongdoing in the Group. Changes to the updated policy and procedures include the introduction of an independent whistleblowing resource and helpline. There have been a number of high profile whistleblowing cases recently so this review has been timely; the Committee is satisfied that the revised provisions are appropriate for the Group.

As with most businesses, the Group is heavily reliant on IT in order to conduct its business – from electronic communications to the trading systems and data used to originate and process transactions. We have therefore spent a significant amount of time on the Group's arrangements in these areas.

Recently, an IT disaster recovery (DR) test was performed to simulate a full failure of the main IT infrastructure. All services were restored in the DR environment within the target recovery times set. This result provides comfort that were the worst to happen, the impact is minimised and we intend to repeat the process at least annually, supported by tests on specific areas as needed.

We are also cognisant of the increasing risk faced by all businesses from cybercrime, and therefore I am pleased to note that following independent third-party penetration testing, the Group's IT infrastructure has been certified as 'Cyber Essentials' compliant.

### INTERNAL AUDIT

The Group has not historically had a dedicated internal audit function, but has appointed third parties to carry out a number of targeted checks in the year as directed by the Committee or the Board, including in this period a review of systems, controls and governance in RAMAM. The Committee actively monitors the need for internal audit and having relied in the past on the use of targeted reviews, the decision has been taken that it is now appropriate to formalise internal audit on an ongoing basis. The Group therefore expects to appoint a permanent internal audit resource to provide improved third line assurance to the Committee and to the Board going forward.

### FINANCIAL REPORTING

A key objective for the Committee is ensuring that the Group's financial reporting is reliable and appropriate and that the UK Code requirements of fair, balanced and understandable (FBU) are met.

The Committee has considered reports from management and BDO LLP relating to the Annual and Interim Reports, and trading updates. Additionally, management submit reports on the financial reporting process and significant accounting matters, including those below.

As part of their engagement with the Group, BDO LLP also report on internal control recommendations that they have noted during their work. The Committee reviews these items and monitors delivery of improvements against them.

### SIGNIFICANT ISSUES

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

#### 1. Accounting for employee and Director share schemes, and remuneration deferrals pursuant to UCITS V

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 June 2014 and June 2018.

Following the determination of the Remuneration Committee as to the number of shares which will be subject to vesting in June 2019, the Committee reviewed papers from management outlining the accounting entries which result.

In respect of UCITS V deferrals, the Committee considered papers from management detailing the approach taken to accounting entries, and the main assumptions made.

#### 2. Viability statement

The viability statement 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.

#### 3. Revenue recognition

Incorrect recognition of revenue is a risk in any business. The Group's contracts are generally similar to each other in nature. 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.

Additionally, the Committee reviewed reports from management detailing their assessment of the upcoming IFRS 15 'Revenue from contracts with customers' and the fact that it is not expected to materially impact on revenue recognition in subsequent periods.

#### 4. Impairment of investments and intangibles

The Group has goodwill and intangibles on consolidation, and the Company holds investments in subsidiaries on an unconsolidated 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.

#### 5. Completeness of cost, 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 accounting for the FCA Competition matter, the Committee continued its oversight of the matter, including correspondence from the FCA and legal advisors. It also considered accounting papers addressing provisions held during the year, the details of the matter and the requirements of IAS 37 – Provisions, contingent liabilities and contingent assets.

### ANNUAL REPORT

The Committee has reviewed the contents 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 Group's performance, business model and strategy.

### FINANCIAL REPORTING COUNCIL LETTER

The Group received a letter from the Financial Reporting Council (FRC) in February 2018 requesting details of the approach to, and basis for, the disclosures of investment performance in our Annual Report for the year ended 30 June 2017. The letter followed from a complaint regarding the presentation of investment performance metrics in the accounts of asset management companies. The Group explained the approach taken and the rationale, enabling the FRC to conclude its enquiry into our presentation. In response to the FRC letter, the Group clarified in its 2018 Interim Report that the investment performance which is disclosed, is gross of the Group's management fees.

### AUDIT QUALITY REVIEW

In respect of the year ended 30 June 2017, the audit of the Group was subject to a review by the FRC's Audit Quality Review team as part of its routine programme of audit firm quality inspections. The Audit Committee considered and discussed with the audit engagement partner the review team's findings and noted there were no significant issues reported.

**Angela Crawford-Ingle**  
Chair, Audit Committee

### RISK MATTERS 2018

We have considered a wide-range of internal and external matters during the year, including:

- Regulatory change and the Group's response to it – MiFID II, GDPR, UK bank ring-fencing;
- IT matters including cyber security and results of disaster recovery testing;
- Risk implications of fund launches including the Global Macro Fund;
- Compliance reporting and reporting from divisional COOs into specific areas of the business;
- Policy matters, with an emphasis on conflicts of interest and related matters; and
- The CMA investigation into investment consulting and fiduciary management and related output from the FCA's Asset Management Market Study.

In the coming year, the Risk Committee's agenda will include:

- Work towards the implementation of the Senior Managers and Certification Regime for asset managers in December 2019;
- Scrutiny of key outsource providers; and
- Consideration of the impacts of the UK's withdrawal from the EU.



## REMUNERATION COMMITTEE REPORT



Robin Minter-Kemp  
Chair, Remuneration Committee

### Dear Shareholder,

On behalf of the Remuneration Committee (the Committee), I am pleased to present the Remuneration Committee report setting out how the current remuneration policy (the Policy) has been implemented for the year ended 30 June 2018.

#### OVERALL REMUNERATION RATIO

# 52%

#### WHAT IS OUR POLICY DESIGNED TO ACCOMPLISH?

In some aspects, our Policy is intentionally bespoke, as we are unable to compare ourselves against conventional asset managers given the complexity of our business in providing investment solutions for the vast majority of our clients.

The Policy includes a maximum remuneration ratio cap of 54% of net management and advisory fees plus 50% of performance fees. Within this, we remunerate our employees and also incentivise our Executive Directors by rewarding short and long-term accomplishments. We explicitly link their bonuses both to earnings growth and also to achieving investment returns for our clients, by sharing in performance fees achieved. This enables our shareholders, clients and Executive Directors to share in the success of the client and Group outcomes.

#### WHAT ARE OUR KEY POLICY AIMS?

- Close alignment between remuneration levels and the delivery of client desired outcomes;
- A transparent approach to sharing the financial performance 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 resulting from implementation of the Group's strategy into financial and non-financial outcomes;
- 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; clawback capability; and retention periods, including compliance with the FCA's Remuneration Codes and UCITS V where applicable.

### HOW HAVE THE EXECUTIVE DIRECTORS BEEN REWARDED?

The implementation report highlights the incentives we provide in order to ensure that the remuneration of the Executive Directors and the value we deliver to our clients and shareholders are closely aligned. Achieving an appropriate balance between rewarding short-term performance and longer-term investment in growth has been a key focus of the Committee since the Policy was implemented.

The Policy with regard to variable pay for Executive Directors has enabled the recognition of exceptional performance whilst apportioning less compensation for lower levels of performance. This approach to rewarding performance has been implemented across the business and is firmly embedded in our culture.

All our employees are eligible for bonus payments, which they receive in cash and longer-term share awards depending on seniority and level of performance during the year. In setting employee bonuses we follow the same approach of ensuring alignment of objectives and remuneration to desirable outcomes, both from a commercial as well as conduct perspective with remuneration modification where behavioural outcomes have been below expectation.

The Executive Directors were assessed against a number of metrics as itemised in last year's financial report. These measurable outcomes were derived from the Group category objectives and included Group financial metrics, distribution, investment performance and other personal individual objectives. These were measured on a weighted basis by individual in apportioning variable awards. The outcomes were then reviewed by the Committee including an assessment of individual performance. This ensured that the final result reflected the Committee's view of performance, conduct, culture and leadership contribution to the Group.

The result of the assessment is that the total Executive Director remuneration including long-term incentive awards is 41% of the maximum under the Policy. The current year awards (cash plus performance fee) are 24% of the maximum; and the cash component of variable remuneration is on average 2.3 times base salary, with a portion of this subject to further deferral.

The Committee reviewed the Group's position and prospects, and awarded an average of 3.1 times base salary in long-term incentive awards (LTIA), contingent upon achieving adjusted underlying diluted EPS growth above a hurdle, combined with personal objectives.

The amount of the LTIA for Executive Directors represents partly the new roles they have undertaken – James Barham, recently appointed as Deputy CEO and Kevin Hayes becoming Global Head of Solutions – as well as weighting incentives more towards future revenue expansion. This is in line with the Policy and provides forward-looking incentives for Executives to continue to drive earnings growth to the benefit of all shareholders.

It's worth remembering the 52% compensation ratio includes the Group's investment in future growth, including key appointments in the US and Australia, and also in research and development, highlighted in Mike Faulkner's CEO's review.

Immediately prior to the Group's IPO in 2014, the Executive Performance Share Plan was established. This reached the end of its performance measurement period in June, with only 32% of the potential maximum number of shares being eligible for vesting in June 2019 subject to continued employment by the individual at that time.

The Committee concluded that the total shareholder return (TSR) based performance condition set at the establishment of the plan was unsatisfactory. This is because the performance of the Group's share price was influenced by many factors which were outside of the Executive Directors' control. The new LTIA arrangements approved last year with EPS growth targets are designed to address these deficiencies and we believe provide better clarity of outcome and therefore alignment between shareholders and Executive Directors through mutual sharing of performance-led growth.

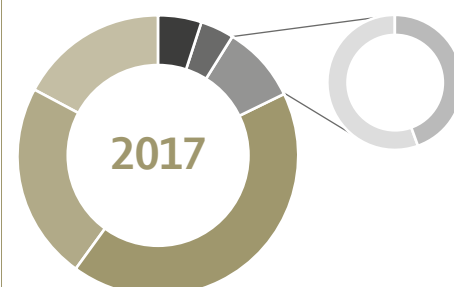
### ARE ANY FUTURE CHANGES ENVISAGED?

During the year, the Committee has continued to review our policy on Executive remuneration. We will shortly be at the first anniversary of our new policy approved by shareholders at the 2017 AGM. We recognise that Directors' remuneration is an area where requirements and expectations continue to evolve and this has led us to consider further development of our approach. We therefore intend to conduct a policy review in consultation with shareholders following the 2018 AGM, with the likelihood of submitting a new policy proposal at the 2019 AGM.

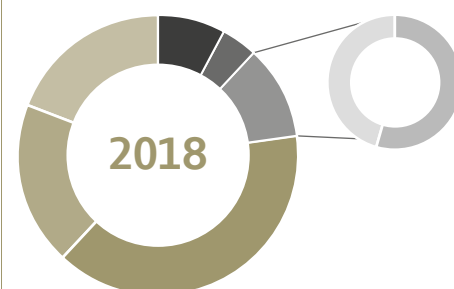
Accordingly, on behalf of the Committee, I commend this report to you and ask for your approval at the AGM in December.

**Robin Minter-Kemp**  
Chair, Remuneration Committee

THE CHART BELOW ILLUSTRATES HOW THE GROUP'S ADJUSTED REVENUE AND EXPENSES ARE DISTRIBUTED TO STAKEHOLDERS, INCLUDING STAFF AND EXECUTIVE DIRECTORS.



Employee remuneration (excl. payroll taxes)	42%
Dividends	23%
Operating expenses incl. depreciation	17%
Executive Director remuneration	5%
Retained and other	4%
Taxes	9%
Corporation tax	4%
Payroll tax	5%



Employee remuneration (excl. payroll taxes)	39%
Dividends	19%
Operating expenses incl. depreciation	19%
Executive Director remuneration	8%
Retained and other	4%
Taxes	11%
Corporation tax	6%
Payroll tax	5%

	2018	2017	% change
Total remuneration and benefits including EPSP	39.0	36.9	5.7%
Adjusted profit before tax	21.8	23.4	(6.8)%
Distribution to shareholders in respect of the year (pence per share)	18.6	19.7	(5.6)%



## REMUNERATION COMMITTEE REPORT CONTINUED

### SUMMARY OF CURRENT REMUNERATION POLICY

Executive Directors' remuneration is determined in accordance with the remuneration policy adopted at the Group's AGM held on 8 December 2017. The full Policy can be found in the corporate governance section of the Group's website ([www.riverandmercantile.com](http://www.riverandmercantile.com)).

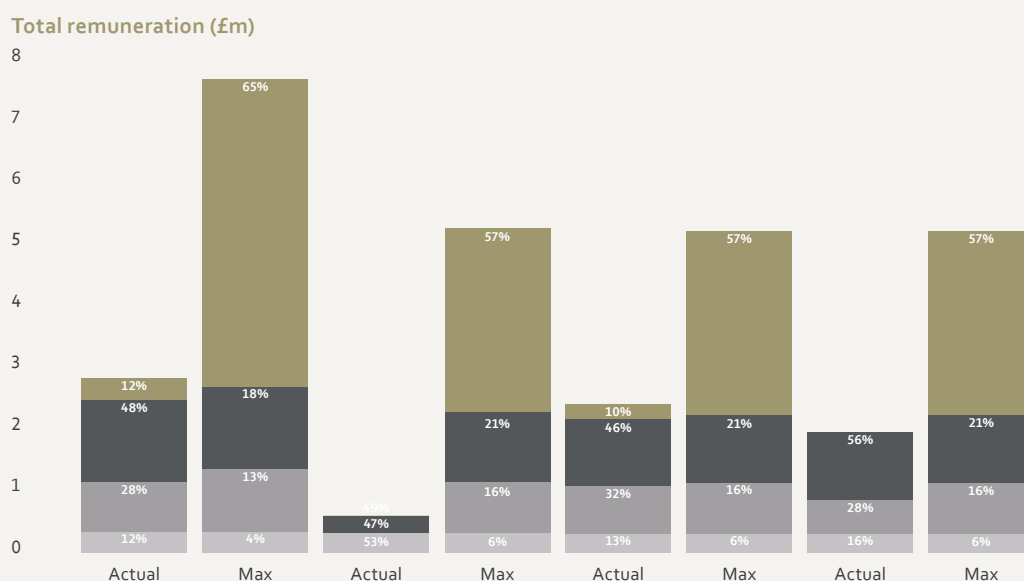
Executive Director remuneration comprises base salary, pension and other benefits; and variable remuneration in the form of a cash bonus, a performance fee bonus, and long-term incentive awards in either equity or fund units.

The Policy includes overall Group remuneration capping at 54% of net management and advisory fees, plus 50% of performance fees, as well as deferrals in respect of performance fee bonuses.

Malus applies to all awards during the performance assessment and award setting process, and both the vesting and holding period. Clawback will apply to cash variable remuneration and performance fee remuneration for a period of 12 months in case of material financial misstatement or serious personal misconduct.

The Policy also requires Executive Directors to acquire and retain at least 200% of base salary in Group shares within five years of taking office.

The chart below shows the actual remuneration this year, compared to the maximums under the Policy. This excludes payments made under the EPSP, which are legacy payments made under the previous remuneration policy.



£'000	Mike Faulkner		Jack Berry		James Barham		Kevin Hayes	
■ Performance fee bonus <sup>1</sup>	350	5,000	–	3,000 <sup>4</sup>	240	3,000 <sup>4</sup>	–	3,000 <sup>4</sup>
■ LTIA <sup>1</sup>	1,350	1,350	281	1,124	1,100	1,100	1,100	1,100
■ Cash bonus <sup>2</sup>	800	1,012	–	843	770	825	550	825
■ Base <sup>3</sup>	340	340	312	312	305	305	305	305

1 Performance measures relating to greater than one year period.

2 Performance measures relating to a one year period.

3 Base includes salary, fees, benefits and pension. Performance measures relating to a one year period.

4 Performance fee bonus relating to Kevin Hayes, Jack Berry and James Barham is subject to a maximum pay-out of £3m between the three directors.

## REMUNERATION IMPLEMENTATION REPORT

### REVIEW OF THE FINANCIAL AND NON-FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

The Committee has reviewed the Group's Key Performance Indicators and other metrics in assessing the performance of the Executive Directors against their specific individual performance objectives for 2018.

#### Business outcomes 2018

##### Client outcomes as measured by net flows and investment performance:

- Fee earning AUM/NUM increased by 9% to £34bn;
- Net inflows were £2.1bn in the year, with net sales of £1.1bn and positive rebalancing flows of £1.0bn;
- Australian business AUM grew to £455m, with New Zealand adding a further £180m to total £635m in the region;
- Positive investment performance in all divisions added £0.7bn; and
- Above benchmark performance across all strategies where performance was the objective, with the exception of US Fiduciary.

##### Shareholder outcomes as measured by our financial performance:

- Net management and advisory fees increased by 15%;
- Management fee margins have been maintained across all divisions. Overall margin increased by one basis point reflecting the increase in higher margin Equity Solutions AUM during the year;
- Performance fees for the 12 months ended 30 June 2018 were £11m;
- Underlying remuneration ratio was 53%;
- Administrative expenses were 22% of net management and advisory revenues;
- Adjusted underlying pre-tax margin of 25%, compared to 29% in the prior year;
- Statutory earnings per share of 18.83 pence, compared to 16.45 pence in the prior year;
- Dividends declared and proposed of 18.6 pence per share, compared to 19.7 in the prior year; and
- Diluted underlying EPS of 15.42 pence per share, compared to 14.97 pence in the prior year.

##### Other outcomes:

- Presence established in Australia with a new senior hire and New York office launched with two new senior hires;
- Decisive action taken to improve conduct; and
- Product development pipeline strong, including the launch of the Global Macro Fund.

#### Executive Director pay decisions for 2018

The Committee's overall 2018 remuneration decisions for each Executive Director are summarised below together with comparable figures for 2017.

##### Year ended 30 June 2018

£	Base salary	Taxable benefits <sup>1</sup>	Annual cash bonus <sup>2,3</sup>	Long Term Incentive Awards <sup>3,4</sup>	Pension contribution <sup>5</sup>	Performance fee bonus	Total
Mike Faulkner	337,480	2,681	800,000	1,350,000	–	350,000	2,840,161
Jack Berry	280,800	2,681	–	281,000	28,080	–	592,561
James Barham	275,000	2,681	770,000	1,100,000	27,500	240,000	2,415,181
Kevin Hayes	275,000	2,681	550,000	1,100,000	27,500	–	1,955,181

##### Year ended 30 June 2017

£	Base salary	Taxable benefits <sup>1</sup>	Annual cash bonus <sup>2,3</sup>	Performance shares award <sup>3,4</sup>	Pension contribution <sup>5</sup>	Performance fee bonus <sup>6</sup>	Total
Mike Faulkner	306,800	2,821	613,600	584,000	–	n/a	1,507,221
Jack Berry	280,800	2,821	504,000	–	28,080	n/a	815,701
James Barham	250,000	3,961	500,000 <sup>3</sup>	251,000 <sup>3</sup>	7,500	n/a	1,012,461
Kevin Hayes	250,000	2,821	500,000 <sup>3</sup>	245,000 <sup>3</sup>	25,000	n/a	1,022,821

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 awards pursuant to UCITS V, under the Group's Deferred Equity Plan ('DEP').

4. Long Term Incentive award (LTIA) is the face value of awards granted in the year, which vest in future periods.

5. Pension contribution includes cash allowances and contributions made to self-invested personal pensions.

6. Performance fee bonus is a component of the 2018 Remuneration Policy and so was not applicable in the prior year.

## REMUNERATION COMMITTEE REPORT CONTINUED

### 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 Policy and their resulting remuneration outcomes.

### Performance metrics

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

#### Group financial 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. Metrics included:

- Growth in net management and advisory revenue, organically, at a minimum of 12% per annum;
- Growth in underlying pre-tax margins to >30% over the medium term, by growing remuneration and administration expenses at a lower rate than net management and advisory fees; and
- Growth in adjusted underlying earnings per share, with a target this year of 13%.

#### Distribution objectives:

This 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 (RIA). 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. Metrics included:

- Sales growth and redemption levels;
- Absolute and in-force revenue growth and mandate pipeline;
- Regretted institutional attrition rate;
- Diversification of distribution channels; and
- Increased penetration of existing distribution channels, including Australia and the US.

#### Investment performance objectives:

This measured the specific contribution of individuals to the investment process, including as reflected in AUM/NUM growth through performance. 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. Metrics included:

- New product launches to broaden investment solutions and increase investment capacity; and
- Above benchmark investment performance.

#### Individual objectives:

These measure the delivery of other objectives within the Group, including the ability to deliver talent development and succession planning effectively, and an assessment of an individual against conduct and other behavioural requirements.

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

- Talent development;
- Client engagement;
- Governance, culture and conduct; and
- Other individual-specific objectives.

### Weighting of objectives

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 is weighted according to the following table, subject to overall Committee evaluation of the individual's performance in the year.

	Group financial	Distribution	Investment performance	Individual objectives	Total
Mike Faulkner	60%	–	20%	20%	100%
Jack Berry	40%	30%	10%	20%	100%
James Barham	40%	30%	10%	20%	100%
Kevin Hayes	65%	–	–	35%	100%

## Evaluation of Executive Director performance

	Group financial	Distribution	Investment performance	Individual objectives	Overall
Mike Faulkner	1-2	n/a	3-4	4-5	3-4
Jack Berry	1-2	1-2	3-4	1-2	1-2
James Barham	1-2	4-5	4	4-5	4
Kevin Hayes	1-2	n/a	n/a	4-5	3

0 = Below Threshold, 1 = Threshold, 2 = Expected, 3 = Above Expectation, 4 = Exceptional, 5 = Maximum

### Group

Organic net management and advisory fee growth at 12.4% was just above the 12% per annum expectation. Both other measures in the Group section – growth in adjusted underlying pre-tax margin and growth in adjusted underlying EPS – did not reach the threshold level of 1% and 13% respectively, so achievement was below Expected.

### Distribution

During the period James Barham was responsible for distribution activities in our asset management division and this showed very strong levels of new sales across institutional and wholesale client types in the UK, US and Australasian region. This was delivered at largely consistent margins, leading to positive revenue outcomes.

Whilst RIA increased, this was mainly driven by the impact of a single Derivatives mandate which, whilst we remain appointed by the client, is yet to renew having reached maturity.

Separately, following the dismissal of a portfolio manager, James' teams worked effectively to limit client redemptions in a number of areas. Taking account of all of these factors, the Committee awarded James a score of Exceptional.

The distribution achievements in Solutions (which Jack Berry led) were lower. Advisory revenues reduced slightly due to a lack of project fee recurrence and the growth rate of new fiduciary mandates was less than budgeted. Whilst the Committee accepts that the ongoing CMA review had suppressed new client volumes, these results meant Jack Berry performed below Expected.

James Barham has been promoted to the new role of Deputy CEO and in this role will assume responsibility for all the underlying operating businesses across Solutions and Asset Management and also will take responsibility for distribution across the Group.

### Investment performance

Investment performance continued to be strong. This is particularly true in the Equity Solutions division under James Barham. New product launches were slightly below expectation, however the Global Macro Fund was launched and has performed strongly in absolute terms since it was fully seeded by the Group in March following a short test-trade period. As a result, Mike Faulkner and Jack Berry were graded as Above Expectation and James Barham was Exceptional.

### Individual performance

#### Individual summary – Mike Faulkner

- Significant investment in key management roles globally;
- Significant progress on Group strategy development;
- Innovation in investment research and development;
- Positive investment performance in all divisions added £0.7bn to AUM/NUM;
- Above benchmark performance across all strategies where performance was the objective, with the exception of US Fiduciary (-0.6%);
- Performance fees for the 12 months ended 30 June 2018 were £11m;
- Administrative expenses were 22% of management and advisory revenues; and
- Adjusted underlying pre-tax margin was 25%.

#### Individual summary – Jack Berry

- Advisory revenues reduced slightly due to a lack of project fee recurrence and the growth rate of new Fiduciary Management mandates was lower than budgeted;
- Positive opening of the New York office;
- Business achieved better than targeted compensation ratio for the year; and
- New business pipeline positive but revenue growth over this period was below target.

## REMUNERATION COMMITTEE REPORT CONTINUED

### Individual summary – James Barham

- Fee earning AUM/NUM increased by 9.0% in the year to £34bn;
- Sales for the period were £5.7bn, including £3.9bn from Derivative Solutions and £1.3bn from Equity Solutions;
- Gross inflows for the 12 months were £5.7bn equivalent to 18% of opening AUM/NUM;
- Net inflows for the 12 months were £2.1bn, equivalent to 7% of opening AUM/NUM;
- Equity Solutions performance fees of £2.4m;
- Proactive action taken on conduct related matters;
- Following the departure of a portfolio manager, James' team worked effectively to limit client redemptions;
- Opening of offices in Australia;
- Australian business AUM grew to £455m, with New Zealand adding a further £180m to total £635m in the region;
- Investment performance continued to be strong. This is particularly true in the Equity Solutions division; and
- Some important talent development achievements.

### Individual summary – Kevin Hayes

- Continued strengthening of governance processes;
- Proactive action taken on conduct related matters;
- Successful development of risk functions, with recent hire of a Chief Risk Officer;
- Effective people development in corporate functions, including development of Finance function; and
- Led on investor relations, and contributed to a 'client' engagement score of above expectation.

### Cash variable remuneration

Based upon the Policy, the performance outcomes above and the Committee's consideration, the following cash bonus outcomes (subject to UCITS V deferrals) have been awarded:

Executive Director	Cash bonus £
Mike Faulkner	800,000
Jack Berry <sup>1</sup>	–
James Barham	770,000
Kevin Hayes	550,000

1 In an environment that was difficult for the Solutions business, we expect Executives to expect their pay to vary consistently with this and Jack's cash bonus has been affected accordingly. This change is specific to Jack as head of Solutions during the year.

### Performance fee bonus

Three of the Executive Directors are also eligible to share in the performance fees generated by the Group. Performance fee bonus awards were made to James Barham and Mike Faulkner to recognise their contribution to performance fees in Equity Solutions and Fiduciary Management respectively. Following consideration of the performance fee levels in the year, and each Director's role in their generation from a distribution and investment management perspective, the Committee awarded £350,000 to Mike Faulkner, £240,000 to James Barham and £nil to Jack Berry.

### Performance share awards

Under the terms of the Policy, Executive Directors are eligible for Long Term Incentive Awards of up to 400% of base salary each year.

The awards are subject to pre-grant conditions which the Committee believes will provide an incentive to drive future growth. This is in line with the Policy and provides forward-looking incentives for Executives to continue to drive earnings growth to the benefit of shareholders.

In setting the appropriate award levels, consideration was given to the roles and responsibilities of each of the Executive Directors and their role in EPS growth alongside their performance during the year.

Mike Faulkner's focus on investment idea generation and role as Chief Executive Officer means that he will be key to continued delivery of the Group's impressive investment performance track record, as well as new product development with products such as the Global Macro Fund, with which he is closely involved. The Group's strong investment performance is not only a differentiator of our business, but also drives underlying revenue growth and excess returns in the form of performance fees. He was therefore awarded the maximum award subject to the future vesting conditions, details of which are set out below.

James Barham has been recently appointed as Deputy CEO responsible for the management of all our operating businesses. He is also responsible for global distribution including the Group's new presence in Australia, an important market for growth. He was therefore awarded the maximum award, subject to the future vesting conditions.

Kevin Hayes has been recently appointed Global Head of Solutions. The Solutions division generated 49% of the Group's total revenue during the year, and the combination of strong investment performance and recent recruitments along with the completion of the CMA review, provides an improved environment to accelerate client wins. It also includes the US business, which again has been an area of recent investment for growth in the form of the New York office. Kevin also retains his role as CFO. He was therefore awarded the maximum award, subject to the future vesting conditions.



Jack Berry has recently changed role to help clients with more complex needs adopt strategies to exploit macro conditions most effectively. This again is important to the aspirations of the Group in servicing existing and new clients across the Group. However, his role is less directly linked to driving growth in EPS than the other three Executive Directors. He was therefore made an award of one times salary, subject to the future vesting conditions.

	LTIA award for year £'000	Award multiple of base salary
Mike Faulkner	1,350	4
Jack Berry	281	1
James Barham	1,100	4
Kevin Hayes	1,100	4

### Vesting conditions

The Committee has determined that the Executive Directors' awards will only vest in full if growth in the Group's adjusted underlying diluted earnings per share (aEPS) of 20% p.a. is achieved between 30 June 2018 and 30 June 2021. No awards will vest if the annualised aEPS for that period is less than 10% p.a., and the awards will vest proportionally on a straight-line basis if the aEPS is between 10-20% p.a. This performance metric is consistent with the Policy, and reflects the role of the awards in driving close alignment between management and shareholders, generally leading to increased returns, as measured by earnings per share.

In addition, the individual awards will also be subject to a downwards-only adjustment at the sole discretion of the Committee. This adjustment will include consideration of conduct and other personal performance factors over the EPS measurement period. Input will be sought from support functions such as Risk and Legal, and alongside the clawback provisions in the policy this emphasises the Committee's determination to ensure that growth is delivered in a sustainable and risk-appropriate fashion.

### UCITS V deferrals

During the year, Kevin Hayes and James Barham were involved with the management and oversight of RAMAM, a UCITS management company which is subject to the UCITS V rules on variable remuneration set out in the FCA Handbook (SYSC 19E). Accordingly, a portion of their variable remuneration is subject to the UCITS V rules which require that such portion is paid through a combination of upfront and deferred cash, and deferred and retained UCITS units. This portion is determined by an assessment of the time spent by Kevin and James on the management of RAMAM, plus an analysis to assess the split of remuneration between UCITS and non-UCITS business managed by RAMAM. UCITS V remuneration rules require that a proportion of the cash and LTIA detailed above is 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 malus adjustment provisions, and UCITS V remuneration requirements relating to deferral periods and the retention of units. The table below reflects the proposed UCITS V deferrals impact on remuneration for James Barham and Kevin Hayes.

£	Cash and performance fee bonus			LTIA			Total variable remuneration
	Non-UCITS element	UCITS non-deferred cash award	UCITS non-deferred instrument award <sup>1</sup>	Non-UCITS element	UCITS 3 years deferred cash award	UCITS 3 years deferred instruments	
Mike Faulkner	1,150,000	–	–	1,350,000	–	–	2,500,000
Jack Berry	–	–	–	281,000	–	–	281,000
James Barham	925,600	42,200	42,200	973,400	63,300	63,300	2,110,000
Kevin Hayes	477,200	36,400	36,400	990,800	54,600	54,600	1,650,000

1. All UCITS instrument awards are subject to an additional six month retention period prior to being transferred to the recipient.

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

Mike Faulkner's cash bonus has increased from £613,600 in the prior year to £1,150,000 in the current year. The total variable remuneration of the Group has increased by 10.5% from £15.2m to £16.7m 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 %
2018	1,280,161	37%	n/a <sup>1</sup>
2017	923,221	83% <sup>2</sup>	n/a <sup>1</sup>
2016	309,476	21% <sup>2</sup>	n/a <sup>1</sup>
2015	309,079	0%	n/a <sup>1</sup>
2014 (six months)	7,801,260 <sup>3</sup>	100%	100%

Notes:

1. No shares vested during 2015, 2016, 2017 or 2018.

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.

## REMUNERATION COMMITTEE REPORT CONTINUED

### Fixed base remuneration and benefits

The Committee believes that the appropriate starting point for fixed base pay increases for the Executive Directors is the average of the base pay increase for the business as a whole, which for this year is 4.6%. As a result, the Committee has granted increases of 4.6% to Mike Faulkner, James Barham and Kevin Hayes, effective 1 July 2018. Jack Berry received a base pay increase of 2.4%. The change in base salaries for James Barham, Kevin Hayes and Jack Berry placed the three Executive Directors on the same base salary.

Following his promotion to Deputy CEO, James Barham has had a further increase in base pay of 13% to £325,000 effective from 6 September 2018.

Executive Director	Current salary £	New salary £	Increase %
Mike Faulkner	337,480	353,000	4.6
Jack Berry	280,800	287,650	2.4
James Barham	275,000	325,000	18.2
Kevin Hayes	275,000	287,650	4.6

### 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, and since 1 July 2017 the Group contributes 10% to his pension.

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

### Single figure remuneration

The following table gives the single figure remuneration of Executive Directors for 2018 and 2017 which includes the current year cash bonus and any previously granted deferred awards which vested in the respective year. It differs from the remuneration outcomes in the year as it measures share and deferred awards which vested during the year, as opposed to those which were granted.

£	Year ended 30 June 2018					Total
	Base salary	Taxable benefits <sup>1</sup>	Annual bonus <sup>2</sup>	Performance shares vested <sup>4</sup>	Pension contribution <sup>5</sup>	
Mike Faulkner	337,480	2,681	940,000	–	–	1,280,161
Jack Berry	280,800	2,681	–	–	28,080	311,561
James Barham	275,000	2,681	866,000 <sup>3</sup>	–	27,500	1,171,181
Kevin Hayes	275,000	2,681	550,000 <sup>3</sup>	–	27,500	855,181

£	Year ended 30 June 2017					Total
	Base salary	Taxable benefits <sup>1</sup>	Annual bonus <sup>2</sup>	Performance shares vested <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

#### Notes:

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 awards pursuant to UCITS V, under the DEP.
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.

### Executive Performance Share Plan (EPSP)

The Group adopted the Executive Performance Share Plan on 2 June 2014, prior to the Group's IPO and listing on the London Stock Exchange.

Under the terms of the plan, the Executive Directors are each entitled to receive dilutive shares following the completion of a four year performance period which ended in June 2018, plus a further one year holding period to June 2019 during which time each is required to remain employed or, if employment ceases, be classified as a good leaver by the Committee. As a result, the shares will vest in the year ended 30 June 2019.

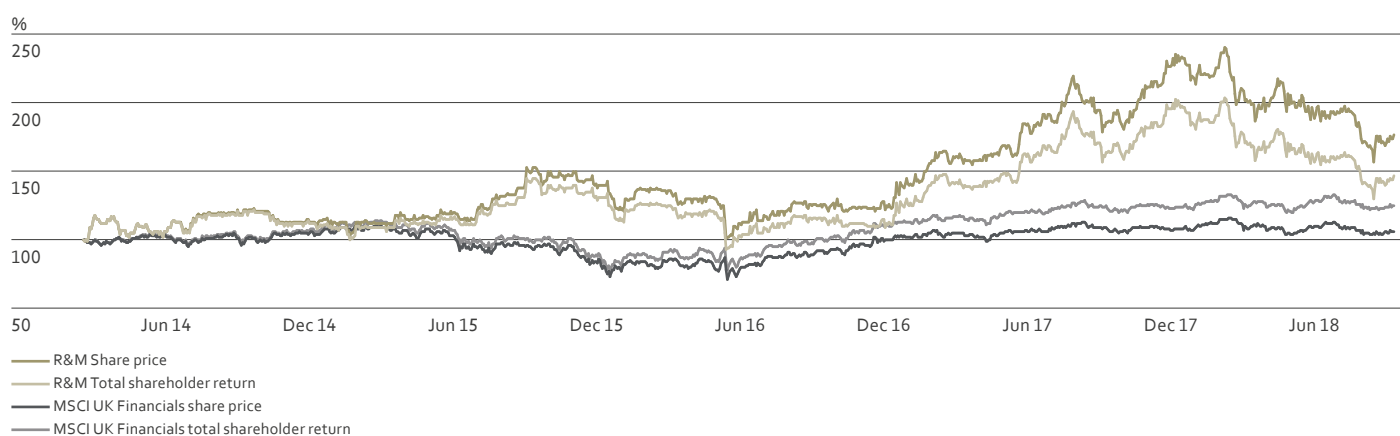
The number of award shares which the Executive Directors would be eligible for on vesting was determined by reference to the compound annual total shareholder return (TSR) over the performance period, with shares awarded in two tranches (A and B) between a TSR of 12-24% and 25-30% per annum respectively.

The performance period ended during the year and the TSR was calculated using the FTSE-Russell total return index methodology for dividend reinvestment, using a three-month volume-weighted average price on the last day of the performance period in June.

The result of this calculation, performed by the Group's corporate brokers, was a TSR of 18.9%, leading to 57% of the A awards and none of the B awards becoming eligible for vesting:

'000 Executive Director	Original A shares awarded	Original B shares awarded	Total shares awarded	Shares eligible for vesting	% of total shares awarded eligible for vesting
Mike Faulkner	821	1,231	2,052	471	23%
Jack Berry	1,396	–	1,396	801	57%
James Barham	1,231	1,231	2,463	707	29%
Kevin Hayes	1,396	–	1,396	801	57%
<b>Total</b>	<b>4,844</b>	<b>2,463</b>	<b>7,306</b>	<b>2,781</b>	<b>38%</b>

### Group share price and TSR performance



During the one-year holding period, the Executive Directors are entitled to dividends on the eligible awards, which will be accounted for by increasing the ultimate number of shares which vest on a re-investment basis. As a result, the ultimate number of shares will be higher than those shown above.

### Summary of remuneration and distributions

£m	Year ended 30 June 2018	Year ended 30 June 2017	Movement
Total Group remuneration	39.6	35.3	4.3
EPSP (credit)/expense	(0.1)	1.6	(1.7)
Distributions to shareholders recorded in period	17.5	9.3	8.2
Distributions to shareholders with respect to period (pence per share)	18.6	19.7	(1.1)

## REMUNERATION COMMITTEE REPORT CONTINUED

**Non-Executive Director remuneration**

The table below shows the total remuneration of the Non-Executive Directors paid during the years ended 30 June 2018 and 30 June 2017. Jonathan Punter's fees were paid directly to PSG.

£	Year ended 30 June 2018	
	Base fees	Additional fees <sup>1</sup>
Angela Crawford-Ingle	57,166	8,000
Jonathan Dawson	112,500	–
Robin Minter-Kemp	42,500	8,000
John Misselbrook	18,727	–
Jonathan Punter	42,500	–
Peter Warry (retired 31 October 2017)	32,542 <sup>3</sup>	–

£	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 <sup>2</sup>

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. The Chairman's fee is fixed for three years following his appointment.

**Personal shareholding**

The Policy requires that Executive Directors hold at least two times their base salary in Group shares within five years of their appointment, including awards which have vested but are subject to holding conditions.

The table below shows the shareholding of the Executive and Non-Executive Directors (and persons closely associated with them) as at 30 June 2017 and 2018. All Executive Directors held at least two times their base salary in Group shares, as required by the Policy.

Shareholding	30 June 2018		30 June 2017		Movement	Movement %
	Number of ordinary shares	Percentage of issued share capital	Number of ordinary shares	Percentage of issued share capital		
Mike Faulkner	3,706,823	4.51%	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	318,296	0.39%	252,865	0.31%	–	–
Angela Crawford-Ingle	19,924	0.02%	13,661	0.02%	6,263	4.6%
Robin Minter-Kemp	30,000	0.04%	25,269	0.03%	4,731	18.7%
Jonathan Punter <sup>1</sup>	–	–	–	0.00%	–	–
Peter Warry	13,661	0.02%	13,661	0.02%	–	–
Jonathan Dawson	60,000	0.07%	–	–	60,000	100%
John Misselbrook	–	–	–	–	–	–

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



### Advisors

The Committee received independent advice on material matters, including :

- Advice from McLagan International Inc. on market conditions and competitive rates of pay;
- Compensation design advice from Willis Towers Watson;
- General advice from the Company Secretary and HR; and
- Advice on specific matters from Pinsent Masons LLP and Addleshaw Goddard LLP.

### Statement of voting at 2017 AGM

Resolution	Votes cast excluding withheld	Votes for	Votes against	Votes withheld
To approve the Directors' report on remuneration for the year ended 30 June 2017	83.17%	99.72%	0.28%	–
To approve the Directors' Remuneration Policy	83.15%	74.70%	25.30%	15,000

Prior to the 2017 AGM, significant shareholders were consulted regarding the planned resolutions. After the vote further conversations were held, especially with the largest shareholder who voted against the proposals. We have factored their comments in and will be addressing their concerns in the 2019 Policy review. Discussions around the current results will also be held with shareholders prior to this year's AGM.

### Compliance and risk management in remuneration

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

In determining remuneration, the Committee take account of reports from the Group's Risk, Legal and Compliance teams, and the Audit and Risk Committees as to conduct and risk outcomes, and any remuneration changes which should reasonably follow.

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 certain malus scenarios including a material misstatement of the Group's financial results or misconduct by an individual. The DEP rules have been amended during the period to provide for the ability of the Committee to clawback awards that have vested (note this will only apply to awards made after 30 June 2018).

### Outlook for 2018/19

The Committee intends to measure Executive performance in the coming financial year in a similar manner under the Policy as has been detailed in this report, applying the same metrics, save that the recent changes to Executive roles and responsibilities may be reflected in different weightings between the four performance categories: Group; distribution; investment performance; and personal.

The Policy was presented to shareholders for approval at the Group's 2017 AGM and next year will represent its second year of operation. During this time the Committee has continued to see an evolution in remuneration policy practice within the financial services sector and more broadly. We therefore intend to undertake a further review of our policy in consultation with main shareholders, which we believe is likely to result in a new policy presented in the 2019 Annual Report for consideration of shareholders at the Group's 2019 AGM.

Approved and signed on behalf of the Board.

### Robin Minter-Kemp

Chair, Remuneration Committee

## DIRECTORS' REPORT

The Directors present their report and the Group's audited financial statements for the year ended 30 June 2018.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company's principal activity is to act as a holding company for a group of investment advisory and management companies. The Company is a public limited company incorporated in England and Wales under registered number 04035248. The Group operates principally in the UK and has a trading subsidiary in the US. One of the Group's trading subsidiaries is registered as a foreign registered entity in Australia. A review of the business is set out in the Strategic Report on pages 1 to 41, which is incorporated by reference into this report.

### BOARD OF DIRECTORS

The Directors of the Company as at the date of this report are set out below. Their biographies are set out in the Governance section on pages 42 and 43.

Director	Date of appointment
James Barham	27 March 2014
Jack Berry	30 June 2009
Angela Crawford-Ingle	29 May 2014
Jonathan Dawson	1 October 2017
Mike Faulkner	30 June 2009
Kevin Hayes	15 April 2014
Robin Minter-Kemp	12 May 2014
John Misselbrook	16 February 2018
Jonathan Punter	30 June 2009

The Directors have agreed to voluntarily retire from the Board at the AGM and, being eligible, will stand for re-election by the members, with exception of John Misselbrook who will be standing for election this being the first AGM since his appointment.

### DIRECTORS' INTERESTS

Directors' interests in the shares of the Company are disclosed in the Directors' remuneration report on page 60. No Director had a material interest in any significant contract (other than a service contract) with the Company at any time during the year.

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

This statement, which is included later in this section, is deemed to form part of this Directors' report.

### CONFLICTS OF INTEREST

A Director has a statutory duty 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 regularly review 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.

### DIRECTORS' INDEMNITIES AND INSURANCE

The Company maintains appropriate insurance cover in respect of litigation against Directors and Officers.

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 2018 and up to the signing of the Annual Report.

### DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Each Executive Director has a written service agreement, which may be terminated by either party on not less than 12 months' notice in writing.

Each NED has a written letter of appointment for a term of three years, which may be terminated by either party on not less than three months' notice in writing. The NED letters of appointment are available for inspection at the Company's registered office during business hours and at the AGM.

### COMPENSATION FOR LOSS OF OFFICE

There are no agreements in place between the Company and any Director or employee for loss of office in the event of a takeover.

### CHANGE OF CONTROL

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a change in a control following a takeover bid, except that provisions of the Company's share schemes may cause awards granted under such schemes to vest in those circumstances.

### 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.

### DIVIDENDS

The Directors have proposed a final dividend of 5.5 pence per ordinary share (2017: 6.0 pence). Payment of this dividend is subject to approval by shareholders at the Company's 2018 AGM and, if approved, it will be paid on 14 December 2018 to shareholders on the register at the close of business on 23 November 2018.

### INTERNAL CONTROL AND RISK MANAGEMENT

Details of how the Board monitor the Group's internal control and risk management approach can be found in the Risk management section of the Strategic Report on page 32. 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.

### CAPITAL STRUCTURE

As at 30 June 2018, there were 82,095,346 ordinary shares of 0.3 pence each. Each share in issue is listed on the Official List maintained by the FCA in its capacity as the UK Listing Authority. There have been no changes to the share capital during the year.

The Company has one class of ordinary share which carry the right to attend, speak and vote at general meetings of the Company. Further details regarding the exercise of voting rights at the AGM are set out in the Notice of AGM.

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. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.

The Company has not been granted the authority to buy back its own shares. Accordingly, no shares have been bought back by the Company during the period.

### CONTROLLING SHAREHOLDER

Punter Southall Group Limited (PSG) is deemed to be a controlling shareholder under the Listing Rules. Accordingly, the Company has entered into a Relationship Agreement with PSG as required by the Listing Rules 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 46.

### SHARES HELD IN AN EMPLOYEE BENEFIT TRUST

Shares are held for the benefit of Group's staff in the Company's Employee Benefit Trust (EBT) in order to satisfy awards under the Group's non-dilutive share award plans. The EBT is operated by Estera (formerly Heritage Trustees). During the reporting period, the trustee of the EBT purchased 0.5m shares. As at 30 June 2018, the EBT held 2.20% of the total issued share capital of the Company.

The EBT has agreed to waive current and future dividends on the shares it holds.

### 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. The Audit and Risk Committee report considers the independence of the auditor on page 48.

### AUDIT INFORMATION

As far as each Director is aware, there is no relevant information that has not been disclosed to the Company's auditors. Furthermore, each of the Directors believes that all reasonable steps have been taken to make them aware of any relevant audit information and to establish that the Company's auditor has been made aware of that information.

### SUBSTANTIAL SHAREHOLDINGS

As at 14 September 2018, the Company had received the notifications of control of 3% or more over the Company's total voting rights and capital in issue in accordance with DTR 5 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
Aberdeen Standard Investments	5,931,944	7.23	Direct
Aviva Investors	4,826,413	5.88	Direct
Sir John Beckwith	4,252,163	5.18	Direct
Legal & General Investment Management	4,058,011	4.93	Direct
Mike Faulkner	3,706,823	4.52	Indirect
Unicorn Asset Management	2,875,000	3.50	Direct

### 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 on pages 50 to 61.

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 48.

12 – Arrangements under which a shareholder has agreed to waive dividends. See section above "Shares held in an Employee Benefit Trust". The other sections are not applicable to the Group.

### 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 37 for further details.

### POLITICAL DONATIONS

The Group made no political donations or contributions during the year (2017: £nil).

### 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 87 to 90 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 statement on pages 4 to 10.

### GREENHOUSE GAS EMISSIONS

Details on the greenhouse gas emissions of the Group can be found on page 41.

### CORPORATE GOVERNANCE STATEMENT

DTR 7.2.1 requires that the Group's disclosures on corporate governance be included in the Directors' Report. This information is presented on pages 44 to 46 in the Corporate Governance section and is incorporated by reference into this Directors' report and is deemed to form part of this report.

### ANNUAL GENERAL MEETING

The AGM will be held at 88 Wood Street, London, EC2V 7QR on 5 December, starting at 9am. The Notice of Meeting convening the AGM is contained in a separate circular to be sent to shareholders. The Notice of Meeting also includes a commentary on the business of the AGM and will be available on the Company's website ([www.riverandmercantile.com](http://www.riverandmercantile.com)).

### APPROVAL OF ANNUAL REPORT

The Corporate Governance Report, the Strategic Report and the Directors' Report were approved by the Board on 5 October 2018.

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.

By order of the Board.

**Sally Buckmaster**  
Group Company Secretary

5 October 2018

## 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 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

## 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 2018 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 changes in equity, the consolidated and parent company cash flow statements and 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. 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 2018 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 and the parent company 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 pages 34–36 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 62 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 73 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 12 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 37 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.



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RIVER AND MERCANTILE GROUP PLC CONTINUED

Matter	Audit response
<p><b>Revenue recognition (note 3 to the Annual Report)</b> 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 assets under management (AUM)/ notional under management (NUM) information prepared by management and rates prevalent in the respective investment management agreements (IMAs). We traced the sample through to invoice and subsequent cash receipt, or to debtors and accrued income where relevant. We agreed a sample of AUM and NUM 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 relevant accounting standards. We considered whether the investment management agreement mandates have been complied with.</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 and compared our expectations against the performance fee income recognised in the accounts.</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 fees through consideration of on-going advisory projects and the recognition of retainer fees.</li> <li>– We compared invoices raised after the year end to the accrued income balance to check where appropriate they were recognised in the profit and loss account for the year.</li> </ul>
<p><b>Impairment of goodwill and intangibles and related disclosures (note 9 to the annual report)</b> Included in the statement of financial position of the Group is goodwill arising on business combinations of £15.2m and intangible assets acquired of £19.8m.</p> <p>The impairment review of goodwill and other intangible assets is considered to be a significant audit risk due to the judgments 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 recoverable amounts considered in the impairment review of goodwill, and include revenue growth rates, revenue multiples, 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 IMA Intangibles and the RAMAM LLP cash-generating unit (CGU) in respect of goodwill. 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. We consulted with BDO valuations specialists to determine whether the discount factor represented an appropriate weighted average cost of capital for the Group.</li> <li>– We reviewed the fair value less costs of disposal model prepared by management in order to calculate the recoverable amount of the Cassidy CGU. We re-performed the calculation of the recoverable amount. We challenged the key assumptions applied by management, including the revenue multiple used and the estimated costs to sell. We consulted with BDO valuations specialists to determine whether the revenue multiples used represented an appropriate benchmark.</li> <li>– We 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 assessed the adequacy of disclosures in the financial statements regarding the impairment assessment performed by management against the requirements of the accounting standards.</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. We consider materiality to be the magnitude by which misstatements, including omission, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Group financial statements as a whole was set at £866,000 (30 June 2017: £540,000). This was determined with reference to a benchmark of 5% of profit before tax. We used this benchmark as we consider this to be one of the principal considerations for members of the parent company in assessing the financial performance of the Group. The basis of materiality is consistent with the prior year.

Performance materiality was set at £650,000 (30 June 2017: £324,000), being 75 per cent (30 June 2017: 60%) of the above materiality levels.

Materiality in respect of the audit of the parent company has been set at £650,000 (30 June 2017: £410,000) using a benchmark of 75% of Group materiality (30 June 2017: 75% of Group materiality). We consider this measure to be the most appropriate measure for the basis of materiality as the parent company is a holding company with no separate trade.

Whilst materiality for the financial statements of a whole was £866,000, each component of the Group was audited to a lower level of materiality. Component materiality was £650,000.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £17,000 (30 June 2017: £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 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 the five significant components were performed by the Group audit team. In respect of the two non-significant components based in the US, which contribute 2% of Group net assets (30 June 2017: 4%), 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 above as well as aggregation risk. All significant components of the Group have conterminous year ends, with the exception of River and Mercantile Asset Management LLP, which has a year end of 31 March. A full scope audit was performed by the Group audit team for the year ended 31 March 2018 and additional audit procedures were performed to cover the three month period to 30 June 2018, as well as the correct allocation of financial information to the Group's reporting period.

### OTHER INFORMATION

The other information comprises the information included in the Annual Report, other than the financial statements and our auditors' report thereon. 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 63 – 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 47 – 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 44 – the parts of the Directors' statement required under the Listing Rules relating to the parent 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
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RIVER AND MERCANTILE GROUP PLC CONTINUED

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and 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; or
- a corporate governance statement has not been prepared by the parent company.

### RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement set out on page 64, 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

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. The period of total uninterrupted engagement is five years, covering the years ending 30 June 2014 to 30 June 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company 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.

### USE OF OUR REPORT

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Leigh Treacy**  
(Senior Statutory Auditor)

For and on behalf of

**BDO LLP,**  
Statutory Auditor  
London

5 October 2018

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

## CONSOLIDATED INCOME STATEMENT

	Note	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Revenue	3		
Net management fees		53,963	45,371
Advisory fees		10,235	10,522
Performance fees		10,575	12,549
<b>Total revenue</b>		<b>74,773</b>	<b>68,442</b>
Administrative expenses	5	14,074	11,562
Depreciation	8,21	156	116
Amortisation	8,9	4,595	4,330
<b>Total operating expenses</b>		<b>18,825</b>	<b>16,008</b>
Remuneration and benefits			
Fixed remuneration and benefits		22,940	20,114
Variable remuneration		16,210	15,201
<b>Total remuneration and benefits</b>	6	<b>39,150</b>	<b>35,315</b>
EPSP (credit)/costs	7	(123)	1,566
<b>Total remuneration and benefits including EPSP</b>		<b>39,027</b>	<b>36,881</b>
<b>Total expenses</b>		<b>57,852</b>	<b>52,889</b>
Gain on disposal of available-for-sale assets	18	458	793
Other gains and losses	10	1,063	–
<b>Profit before interest and tax</b>		<b>18,442</b>	<b>16,346</b>
Finance income	12	50	46
Finance expense	12	(40)	(3)
<b>Profit before tax</b>		<b>18,452</b>	<b>16,389</b>
<b>Tax charge/(credit)</b>	13		
Current tax		3,896	4,877
Deferred tax		(586)	(1,844)
<b>Profit for the year attributable to owners of the parent</b>		<b>15,142</b>	<b>13,356</b>
<b>Earnings per share:</b>	14		
Statutory basic (pence)		18.83	16.45
Statutory diluted (pence)		18.08	15.48

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Profit for the year		15,142	13,356
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation adjustments		21	66
Change in value of available-for-sale investments	18	472	445
Tax on change in value of available-for-sale investments	13	(95)	(90)
Gain on disposal of available-for-sale investments	18	(458)	(793)
Tax on gain on disposal of available-for-sale investments	13	92	159
<b>Total comprehensive income for the year attributable to owners of the parent</b>		<b>15,174</b>	<b>13,143</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 2018 £'000	30 June 2017 £'000
<b>Assets</b>			
Cash and cash equivalents	16	24,029	30,759
Investment management balances	17	13,116	62,138
Available-for-sale investments	18	5,165	12
Fee receivables	19	7,856	5,619
Other receivables	20	19,696	14,898
Deferred tax asset	13	2,443	3,421
Property, plant and equipment	21	601	263
Intangible assets	9	35,025	37,353
<b>Total assets</b>		<b>107,931</b>	<b>154,463</b>
<b>Liabilities</b>			
Investment management balances	17	13,147	60,317
Current tax liabilities		2,054	3,111
Trade and other payables	22	22,373	18,699
Provisions	23	1,209	–
Deferred tax liability	13	3,153	3,969
<b>Total liabilities</b>		<b>41,936</b>	<b>86,096</b>
<b>Net assets</b>		<b>65,995</b>	<b>68,367</b>
<b>Equity</b>			
Share capital	24	246	246
Share premium		14,688	14,688
Other reserves	25	49,372	49,340
Own shares held by EBT	24	(4,981)	(4,766)
Retained earnings		6,670	8,859
<b>Equity attributable to owners of the parent</b>		<b>65,995</b>	<b>68,367</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 on 5 October 2018.

**Mike Falkner**  
Chief Executive Officer

**Kevin Hayes**  
Chief Financial Officer



## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
<b>Cash flow from operating activities</b>			
Profit before interest and tax		18,442	16,346
<b>Adjustments for:</b>			
Amortisation of intangible assets	9	4,595	4,330
Depreciation of property, plant and equipment	21	156	116
Share-based payment expense	7	2,364	2,039
Other gain and losses	10	(1,063)	–
Gain on disposal of available-for-sale investments	18	(458)	(793)
<b>Operating cash flow before movement in working capital</b>		<b>24,036</b>	<b>22,038</b>
Decrease/(increase) in operating assets		41,988	(49,952)
(Decrease)/increase in operating liabilities		(43,234)	54,533
<b>Cash generated from operations</b>		<b>22,790</b>	<b>26,619</b>
Tax paid		(4,953)	(2,934)
<b>Net cash generated from operating activities</b>		<b>17,837</b>	<b>23,685</b>
<b>Cash flow from investing activities</b>			
Purchase of intangible assets	9	(328)	(79)
Purchases of property, plant and equipment	21	(504)	(2)
Interest received		23	15
Investment in available-for-sale investments	18	(10,043)	(10)
Proceeds from disposal of available-for-sale investments	18	5,362	5,793
<b>Net cash (used in)/generated from investing activities</b>		<b>(5,490)</b>	<b>5,717</b>
<b>Cash flow from financing activities</b>			
Interest paid	12	(1)	–
Dividends paid	15	(17,456)	(9,345)
Purchase of own shares	24	(1,665)	(3,483)
<b>Net cash used in financing activities</b>		<b>(19,122)</b>	<b>(12,828)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6,775)</b>	<b>16,574</b>
Cash and cash equivalents at beginning of year		30,759	14,147
Effects of exchange rate changes on cash and cash equivalents		45	38
<b>Cash and cash equivalents at end of year</b>	16	<b>24,029</b>	<b>30,759</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	Other reserves £'000	Own shares held by EBT £'000	Retained earnings £'000	Total £'000
Balance as at 30 June 2016	246	14,688	49,553	(1,283)	532	63,736
<b>Comprehensive income for the year:</b>						
Profit for the year	–	–	–	–	13,356	13,356
Other comprehensive income	–	–	(123)	–	–	(123)
Deferred tax credit on available-for-sale investments	–	–	(90)	–	–	(90)
<b>Total comprehensive income for the year</b>	–	–	(213)	–	13,356	13,143
<b>Transactions with owners:</b>						
Dividends	–	–	–	–	(9,345)	(9,345)
Share-based payment expense	–	–	–	–	2,039	2,039
Deferred tax 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	49,340	(4,766)	8,859	68,367
<b>Comprehensive income for the year:</b>						
Profit for the year	–	–	–	–	15,142	15,142
Other comprehensive income	–	–	35	–	–	35
Deferred tax credit on available-for-sale investments	–	–	(3)	–	–	(3)
<b>Total comprehensive income for the year</b>	–	–	32	–	15,142	15,174
<b>Transactions with owners:</b>						
Dividends	–	–	–	–	(17,456)	(17,456)
Share-based payment expense	–	–	–	–	2,364	2,364
Deferred tax on share-based payment expense	–	–	–	–	(789)	(789)
Disposal of shares in respect of award vesting	–	–	–	1,450	(1,450)	–
Purchase of own shares by EBT	–	–	–	(1,665)	–	(1,665)
<b>Total transactions with owners</b>	–	–	–	(215)	(17,331)	(17,546)
<b>Balance as at 30 June 2018</b>	<b>246</b>	<b>14,688</b>	<b>49,372</b>	<b>(4,981)</b>	<b>6,670</b>	<b>65,995</b>

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 2017.

### 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 Directors have considered budgeted and projected results of the business including a 2019 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 EBT 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 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 River and Mercantile LLC which is 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 River and Mercantile LLC 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 2. SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS 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 judgments 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 judgment and estimates. See note 23.
- The accounting for share-based remuneration. This involves judgments relating to forfeiture rates and business outcomes and estimates of future share prices for National Insurance cost, which are described in note 7.
- The accounting for the acquisition of the Emerging Markets Industrial Lifecycle (ILC) team (note 11). This involves judgments relating to the likely useful life of intangibles and estimates as to revenue and cost growth over time.
- The accounting for UCITS V deferred remuneration, which involves estimates of forfeiture rates (note 6).

### 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 AUM or NUM. The fees are generally accrued on a daily basis and charged to the client either monthly or quarterly. During the year ended 30 June 2018, rebates and commissions totalling £3,176,000 (2017: £2,094,000) were paid in respect of Equity Solutions and DAA Fund management fees.

#### Advisory fees

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. 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.

### 4. DIVISIONAL AND GEOGRAPHICAL REPORTING

The business operates through four divisions, however, these are not considered to be 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 2018 and 30 June 2017 together with the year-end AUM and NUM, reflect the activities of the respective divisions.

	Year ended 30 June 2018		Year ended 30 June 2017	
	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	18,400	10,642	17,677	10,528
Derivative Solutions division	11,777	18,622	10,883	16,888
Equity Solutions division	23,786	4,579	16,811	3,633
Advisory division	10,235	N/A	10,522	N/A
<b>Total</b>	<b>64,198</b>	<b>33,843</b>	<b>55,893</b>	<b>31,049</b>

In addition, performance fees of £8.2m (2017: £6.6m) were earned by the Fiduciary Management division and £2.4m (2017: £6.0m) by the Equity Solutions division.

No single client accounts for more than 10% of the revenue of the Group (2017: none).

On a geographic basis the majority of the revenues are earned in the UK. The Group has an Advisory, Derivatives, Fiduciary Management and Equity Solutions business in the US and net revenue earned in the US for the year ended 30 June 2018 was £5.7m (2017: £4.8m). The AUM/NUM of the US business was £903m (2017: £630m).

Non-current assets held by the US business include £1.5m (2017: £1.5m) of goodwill.

## 5. ADMINISTRATIVE EXPENSES

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Marketing	892	839
Travel and entertainment	662	498
Office facilities	2,502	2,192
Technology and communications	5,598	3,720
Professional fees	1,400	1,027
Governance expenses	538	413
Fund administration	902	481
Other staff costs	295	412
Insurance	335	234
Irrecoverable VAT	300	226
Other costs	650	378
<b>Total administrative expenses (excluding IT migration costs)</b>	<b>14,074</b>	<b>10,420</b>
IT migration costs	–	1,142
<b>Total administrative expenses</b>	<b>14,074</b>	<b>11,562</b>

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

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Audit of the Company's annual accounts	99	95
Audit of the Company's subsidiaries	89	80
Audit related assurance services	49	55
Tax compliance services	–	19
	<b>237</b>	<b>249</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 £2,320,000 (2017: £1,515,000) relating to the amortisation of the Group's non-dilutive share awards and £465,000 (2017: £409,000) of associated social security costs.

	Year ended 30 June 2018 Number	Year ended 30 June 2017 Number
The average number of employees (including Directors) employed was:		
Advisory division	71	68
Fiduciary Management division	56	55
Derivative Solutions division	24	24
Equity Solutions division	23	20
Distribution	12	12
Corporate	31	29
<b>Total average headcount</b>	<b>217</b>	<b>208</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 6. REMUNERATION AND BENEFITS continued

	Note	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
The aggregate remuneration of employees (including Directors) comprised:			
Wages and salaries		32,601	29,788
Social security costs		3,811	3,326
Pension costs (defined contribution)		826	686
Share-based payment expense	7	1,912	1,515
<b>Total remuneration and benefits (excluding EPSP)</b>		<b>39,150</b>	<b>35,315</b>
Fixed remuneration		22,940	20,114
Variable remuneration		16,210	15,201
		<b>39,150</b>	<b>35,315</b>
<b>EPSP costs:</b>			
Share-based payment expense	7	452	452
Social security costs	7	(575)	1,114
<b>Total EPSP costs</b>		<b>(123)</b>	<b>1,566</b>

**Directors' remuneration**

The aggregate remuneration and fees payable to Executive and Non-Executive Directors for the year ended 30 June 2018 was £4,294,020 (2017: £3,568,000). Fees payable for the year ended 30 June 2018 to Directors of PSG totalled £43,000 (2017: £43,000).

The remuneration of the Executive Directors (which includes the highest paid Director) is included in the Remuneration Committee report which starts on page 50.

**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 2018 £'000	Year ended 30 June 2017 £'000
Short-term employee benefits	8,601	9,069
Long-term employee benefits	771	–
Post-employment benefits	111	111
Share-based payment expense	2,112	1,586
	<b>11,595</b>	<b>10,766</b>

Details of share awards granted to Executive Directors for future performance periods are included in the Remuneration Committee report.

**7. SHARE-BASED PAYMENTS**

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

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

**Executive Performance Share Plan**

Prior to Group's admission to the London Stock Exchange (admission) on 26 June 2014, the Board of Directors established the 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 4,844,000 performance shares under Performance Condition A awards and 2,463,000 performance shares under Performance Condition B awards. The exercise price for the EPSP share awards is £0.003.

The number of Performance Condition A awards eligible for vesting was conditional upon achieving a total shareholder return (TSR) of at least 12% compounded over a four-year performance period ending in June 2018. Vesting started at 12% compound annual TSR and 100% vested at 24% compound annual TSR over the four-year period. Vesting was pro-rated on a straight-line basis between 12% and 24%.

The number of Performance Condition B awards eligible for vesting was conditional on achieving a TSR of at least 25% compounded over a four-year performance period ending June 2018. Vesting started at 25% compound annual TSR and 100% vested at 30% compound annual TSR over the four-year period. Vesting was pro-rated on a straight-line basis between 25% and 30%.

The compound annual TSR for the performance period was 18.9%, leading to 57% of the Performance Condition A awards and none of the Performance Condition B awards being eligible for vesting following a one-year holding period during which the participant must continue in employment by the Group or, if employment ceases, be classified as a good leaver at the discretion of the Remuneration Committee. The eligible awards will receive dividends on a reinvestment basis during the holding period.

## 7. SHARE-BASED PAYMENTS *continued*

As a result of the completion of the performance period, during the year ended 30 June 2018, 4,546,000 award shares were forfeited (2017: none). No shares were granted, exercised, expired or vested under either the A or B awards during the year (2017: none).

The fair value of the Performance shares was determined by an independent valuation undertaken by EY 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 38 pence per share and the fair value of the Performance Condition B awards is 17 pence per share. The total fair value of Performance Condition A and B awards is £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 2018 (2017: £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 2018 is one year.

The Directors expect that any shares that vest will be subject to applicable employer's National Insurance at the date of vesting. 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 2018 was a credit of £575,000 (2017: charge of £1,114,000) and is included in EPSP costs.

### Performance Share Plan

The Group's Performance Share Plan and Deferred Equity Plan allow for the grant of: nil cost options, contingent share awards or forfeitable share awards.

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 awards made in respect of 2018 have been assessed using the share price as at 30 June 2018, being £2.68.

The key features of the awards are:

Financial year of award	2015	2016	2017	2018
<b>Grant date award value £'000</b>				
Scheme 1 – Employees	701	1,971	713	94
Scheme 2 – Employees	144	100	–	–
Scheme 3 – Employees	–	407	466	1,622
Scheme 4 – Employees	225	–	–	612
Scheme 5 – Employees	–	–	–	155
Scheme 6 – Executive Directors	–	585	950	3,586
<b>Number of shares granted '000</b>				
Scheme 1 – Employees	303	892	229	35
Scheme 2 – Employees	64	45	–	–
Scheme 3 – Employees	–	184	150	541
Scheme 4 – Employees	97	–	–	196
Scheme 5 – Employees	–	–	–	58
Scheme 6 – Executive Directors	–	265	304	1,338
<b>Maximum term at grant date</b>				
Scheme 1 – Employees	4 years	5 years	4 years	4 years
Scheme 2 – Employees	4 years	4 years	n/a	n/a
Scheme 3 – Employees	n/a	4 years	4 years	4 years
Scheme 4 – Employees	4 years	n/a	n/a	3 years
Scheme 5 – Employees	n/a	n/a	n/a	4 years
Scheme 6 – Executive Directors	n/a	5 years	4 years	4 years
<b>Vesting conditions (see key below)</b>				
Scheme 1 – Employees	1, 2 and 3	1, 2 and 3	1, 2 and 3	1, 2 and 3
Scheme 2 – Employees	1 and 2	1 and 2	n/a	n/a
Scheme 3 – Employees	n/a	1	1	1
Scheme 4 – Employees	1 and 4	n/a	n/a	1 and 4
Scheme 5 – Employees	n/a	n/a	n/a	none
Scheme 6 – Executive Directors	n/a	1 and 2	1 and 2	1 and 5

1. Remain employed throughout vesting period, subject to malus and good leaver provisions.
2. Achievement of specified total shareholder return target within a range.
3. Straight-line between minimum and maximum divisional AUM/NUM and revenue targets.
4. Achievement of specified revenue targets within a range.
5. Achievement of specified adjusted underlying EPS targets and personal objectives.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 7. SHARE-BASED PAYMENTS *continued*

The following table sets out the movement in awards recognised in the income statement during the year and the key inputs into the fair values of awards:

'000	Financial year of award					
	2015	2016	2017	2018	2018	2018
Grant date award value £'000	1,070	3,063	2,130	668	1,133	4,268
Grant date share price £	2.31	2.21	3.12	3.14 est.	3.12	2.68 est.
Number of shares outstanding at 30 June 2016	464	1,386	–	–	–	–
Number of shares granted during the year	–	–	683	–	–	–
Number of shares forfeited during the year	–	(48)	–	–	–	–
Exercised during the year	–	–	–	–	–	–
Number of shares outstanding at 30 June 2017	464	1,338	683	–	–	–
Number of shares granted during the year	–	–	–	213	363	1,592
Number of shares forfeited during the year	(222)	–	–	–	–	–
Exercised during the year	(82)	(500)	–	–	–	–
<b>Number of shares outstanding at 30 June 2018</b>	<b>160</b>	<b>838</b>	<b>683</b>	<b>213</b>	<b>363</b>	<b>1,592</b>
<b>Fair value assumptions:</b>						
Exercise price	£Nil	£Nil	£Nil	£Nil	£Nil	£Nil
Risk free rate	0.94%	0.94% or 1.00%	1.00%	1.00%	1.00%	1.00%
Share price volatility	26.08%	27.40%	27.90%	28.20%	28.20%	28.80%
Dividend yield	5%	5%	5%	5%	5%	5%
Number of shares expected to vest '000	160	423	447	205	336	1,556

The volatility for awards granted in the year has been calculated based upon the annualised daily return on the Group'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 311,000 of the awards were exercisable (2017: 556,000).

### 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 21.

The amortisation charge primarily relates to the IMAs recorded in the acquisition of RAMAM and the ILC team as described in notes 9 and 11. The RAMAM and ILC team IMA intangibles are amortised over their expected useful life 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 tax in line with the amortisation of the related RAMAM IMAs. At the date of the acquisition no deferred tax liability was recognised in respect of the ILC team IMAs as the US business has brought-forward tax losses.

### 9. INTANGIBLE ASSETS

#### Business combinations and goodwill

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

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

Goodwill is not amortised but is reviewed for impairment annually, or more frequently when there is an indication of impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units (CGUs) expected to benefit from the synergies of the combination. Each 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

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.

## 9. INTANGIBLE ASSETS *continued*

### 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 2016	15,230	36,510	–	51,740
Additions	–	–	79	79
Exchange difference	101	–	–	101
At 30 June 2017	15,331	36,510	79	51,920
Additions	328	1,969	–	2,297
Exchange difference	(64)	12	5	(47)
<b>At 30 June 2018</b>	<b>15,595</b>	<b>38,491</b>	<b>84</b>	<b>54,170</b>
<b>Accumulated amortisation and impairment:</b>				
At 1 July 2016	395	9,793	–	10,188
Amortisation charge	–	4,330	–	4,330
Exchange difference	–	49	–	49
At 30 June 2017	395	14,172	–	14,567
Amortisation charge	38	4,520	37	4,595
Exchange difference	(15)	(2)	–	(17)
<b>At 30 June 2018</b>	<b>418</b>	<b>18,690</b>	<b>37</b>	<b>19,145</b>
<b>Net book value:</b>				
At 30 June 2017	14,936	22,338	79	37,353
<b>At 30 June 2018</b>	<b>15,177</b>	<b>19,801</b>	<b>47</b>	<b>35,025</b>

There were £1,969,000 of IMA additions as a result of the ILC team acquisition in the year ended 30 June 2018 (2017: £Nil) as discussed in note 11.

### Impairment review

Goodwill includes £13.2m (2017: £13.2m) in respect of RAMAM and £1.5m (2017: £1.5m) in respect of Cassidy Retirement Group Inc. (Cassidy).

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 five-year view. The key assumptions used were: a 12% revenue growth rate for the first five years; no growth after this point; and a pre-tax discount rate of 12%. Estimates were made concerning remuneration and administrative costs, based upon current levels and expected changes.

Sensitivity analysis was performed on the key inputs of the valuation, being the growth and discount rates and future cash flows. A growth rate of less than -8% or a discount rate of greater than 40% was required to indicate impairment.

The Directors estimated the recoverable amount of the Cassidy goodwill using a net realisable value. This value was measured using the revenues of the CGU and third-party data concerning comparable revenue multiples paid for recent acquisitions of similar businesses.

The key assumptions included in the estimate were: the costs of disposal; and the assumption that the multiples observed in other businesses would be comparable. Sensitivity analysis was performed on the valuation. A reduction in the revenue multiple of greater than 50% would be required to indicate impairment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 10. OTHER GAINS AND LOSSES

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Gain on bargain purchase (note 11)	1,043	–
Loss on disposal of fixed assets	(8)	–
Gain on disposal of subsidiary	28	–
<b>Total other gains and losses</b>	<b>1,063</b>	<b>–</b>

The gain on disposal of subsidiary arose on the closure of River and Mercantile Asset Management LLC, which was previously dormant.

## 11. GAIN ON BARGAIN PURCHASE

Following the on-boarding of the ILC team, on 1 December 2017 the Group became the investment manager of the ILC funds. The contractual agreements entered into between the parties constitute a business combination under IFRS 3.

The consideration payable to the seller is based on the contractually agreed amounts payable, including a future net revenue share arrangement over five years and seven months from 1 December 2017 calculated solely on a single ILC fund.

This contingent consideration is measured at fair value at the acquisition date. The contingent consideration balance is accounted for within 'trade and other payables' in the consolidated statement of financial position.

Based on a discount rate of 12% and an assumed AUM growth of 10% per annum, the fair value of the contingent consideration payable is £819,000. In addition, an upfront payment of £107,000 forms part of the acquisition costs together with the contingent consideration.

	Year ended 30 June 2018 £'000
Fair value of contingent consideration on acquisition	819
Upfront consideration payable	107
<b>Total consideration</b>	<b>926</b>
Fair value of assets acquired and liabilities assumed:	
Intangible assets – investment management agreements	1,969
<b>Total assets and liabilities</b>	<b>1,969</b>
<b>Negative goodwill from bargain purchase</b>	<b>(1,043)</b>

The business combination results in a bargain purchase transaction as a result of the fair value of assets acquired and liabilities assumed exceeding the total of the fair value of consideration payable. The Group has recognised a gain in 'other gains and losses' in the consolidated income statement for the year ended 30 June 2018.

Since acquisition the ILC team generated revenue of £902,000 for the year ended 30 June 2018, which was recognised in net management fees in the consolidated income statement. As the ILC team has been incorporated within River and Mercantile LLC, profit is not separately measured.

The fair value of contingent consideration, intangible assets and negative goodwill has reduced from the estimated values presented in the December 2017 interim financial statements as a result of the finalisation of contract terms including investment management agreements.

## 12. FINANCE INCOME AND EXPENSE

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

Finance income comprises £23,000 of bank interest (2017: £14,000), £23,000 of interest earned from a loan to Palisades (2017: £22,000), £4,000 of foreign exchange gain (2017: £8,000) and other finance income of £Nil (2017: £2,000).

Finance expense comprises £37,000 of fair value of contingent consideration loss (2017: £Nil) and £3,000 of other finance costs (2017: £3,000).

## 13. 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.



**13. CURRENT AND DEFERRED TAX** continued

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
<b>Current tax:</b>		
Current tax on profits for the year	4,377	4,874
Adjustments in respect of prior years	(481)	3
<b>Total current tax</b>	<b>3,896</b>	<b>4,877</b>
Deferred tax – origination and reversal of timing differences	(586)	(1,844)
<b>Total tax charge</b>	<b>3,310</b>	<b>3,033</b>

The total tax charge assessed for the year is lower (2017: lower) than the average standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
<b>Profit before tax</b>	<b>18,452</b>	<b>16,389</b>
Profit before tax multiplied by the average rate of corporation tax in the UK of 19% (2017: 19.75%)	3,506	3,236
<b>Effects of:</b>		
Expenses not deductible for tax purposes	537	1,638
Deferred tax on amortisation of RAMAM IMAs	(851)	(1,306)
Income not subject to tax	(191)	–
Adjustment in respect of prior years	(285)	3
Other timing differences	594	(538)
	<b>3,310</b>	<b>3,033</b>

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

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
<b>Deferred tax assets</b>		
At beginning of year	3,421	609
(Charge)/credit to the income statement:		
– accelerated capital allowances	–	12
– deductible temporary differences	–	(25)
– share-based payment expense	(189)	548
Credit/(debit) to equity – share-based payment expense	(789)	2,277
	<b>2,443</b>	<b>3,421</b>
<b>Deferred tax liabilities</b>		
At beginning of year	3,969	5,347
Credit to the income statement:		
– amortisation of intangibles	(851)	(849)
– adjustment to deferred tax on intangibles due to changes in tax rates	–	(460)
Credit/(debit) to equity:		
– movement on fair value of available-for-sale investments	35	90
– recycling of deferred tax on disposal of available-for-sale investments	–	(159)
<b>At end of year</b>	<b>3,153</b>	<b>3,969</b>

**14. 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 performance shares to determine if the shares are dilutive as of the reporting date. No consideration is given to future performance.

Following the end of the performance period 57% (2017: 100%) of the EPSP Performance Condition A shares and none (2017: 21%) of the EPSP Performance Condition B shares have met the vesting criteria. As a result, 2,644,000 shares were dilutive (2017: 4,933,000). There were no share awards that were anti-dilutive in the year but which may be dilutive in future periods (2017: none).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 14. EARNINGS PER SHARE continued

	Year ended 30 June 2018	Year ended 30 June 2017
Profit attributable to owners of the parent (£'000)	15,142	13,356
Weighted average number of shares in issue ('000)	80,410	81,149
Weighted average number of diluted shares ('000)	83,740	86,288
<b>Earnings per share:</b>		
Earnings per share		
Basic (pence)	18.83	16.45
Diluted (pence)	18.08	15.48

Reconciliation between weighted average number of shares in issue:

	Year ended 30 June 2018 '000	Year ended 30 June 2017 '000
Weighted average number of shares in issue – basic	80,410	81,149
Dilutive effect of shares granted under save-as-you-earn	686	206
Dilutive effect of shares granted under EPSP	2,644	4,933
<b>Weighted average number of shares in issue – diluted</b>	<b>83,740</b>	<b>86,288</b>

The weighted average number of shares in issue has reduced as a result of purchases of own shares by the EBT (note 24). At 30 June 2018, the EBT held 1,806,000 shares (2017: 1,884,000). The weighted average number held by the EBT during the year was 1,685,000 (2017: 899,000).

**Adjusted profit**

Adjusted profit comprises adjusted underlying profit and performance fee profit.

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

Performance fee profit represents performance fees, less the associated remuneration costs plus the gain on disposal of available-for-sale assets.

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
<b>Adjusted underlying profit</b>		
Net management and advisory fees	64,198	55,893
Administrative expenses – excluding IT migration costs	(14,074)	(10,420)
Underlying remuneration at 53%/52%	(33,862)	(29,040)
Amortisation of software	(37)	–
Depreciation	(156)	(116)
Net finance income/(expense)	10	43
<b>Adjusted underlying profit before tax</b>	<b>16,079</b>	<b>16,360</b>
Taxes	(3,165)	(3,443)
<b>Adjusted underlying profit after tax</b>	<b>12,914</b>	<b>12,917</b>
<b>Adjusted underlying pre-tax margin</b>	<b>25%</b>	<b>29%</b>
<b>Performance fee profit</b>		
Performance fees	10,575	12,549
Less remuneration at 50%	(5,288)	(6,275)
Gain on disposal of available-for-sale assets	458	793
<b>Performance fee profit before tax</b>	<b>5,745</b>	<b>7,067</b>
Taxes	(1,092)	(1,395)
<b>Performance fee profit after tax</b>	<b>4,653</b>	<b>5,672</b>
<b>Adjusted profit before tax</b>	<b>21,824</b>	<b>23,427</b>
<b>Adjusted profit after tax</b>	<b>17,567</b>	<b>18,589</b>

**14. EARNINGS PER SHARE** continued**Reconciliation to statutory profit**

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Profit before tax	18,452	16,389
<b>Adjustments:</b>		
Amortisation of acquired intangible assets and IMAs	4,558	4,330
IT migration costs	–	1,142
Other gains and losses	(1,063)	–
EPSP (credit)/costs	(123)	1,566
<b>Adjusted profit before tax</b>	<b>21,824</b>	<b>23,427</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).

**Adjusted earnings per share**

	Year ended 30 June 2018	Year ended 30 June 2017
Adjusted profit after tax (£'000)	17,567	18,589
Weighted average shares ('000)	80,410	81,149
Weighted average diluted shares ('000)	83,740	86,288
<b>Adjusted EPS:</b>		
Basic (pence)	21.85	22.90
Diluted (pence)	20.98	21.54
<b>Adjusted underlying EPS:</b>		
Basic (pence)	16.06	15.92
Diluted (pence)	15.42	14.97

**15. 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 (pence)	Special (pence)	Total (pence)	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
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
2017 second interim	5.3	2.8	8.1	6,526	–
2017 final	3.2	2.8	6.0	4,835	–
2018 first interim	5.4	2.2	7.6	6,095	–
				<b>17,456</b>	<b>9,345</b>

**16. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash in 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	16,119	A2/Stable	Moody's
Lloyds Bank	7,583	Aa3	Moody's
First Republic Bank	327	A1	Moody's
<b>Total cash and cash equivalents</b>	<b>24,029</b>		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 17. INVESTMENT MANAGEMENT BALANCES

	30 June 2018 £'000	30 June 2017 £'000
Investment management receivables	13,116	62,138
Investment management payables	13,147	60,317

As ACD of River and Mercantile Funds ICVC (the Fund) the Group is required to settle transactions between investors and the depositary of the Fund. The Group is exposed to the short-term liquidity requirements to settle with the depositary of the Fund before receiving payments from the investor. The credit risk associated with the investment management balances is discussed in note 28.

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 of the contractually agreed subscription or redemption values 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 2018 (2017: £Nil).

## 18. AVAILABLE-FOR-SALE INVESTMENTS

During the year, the Group invested £5m of seed capital in the River and Mercantile Global Macro Fund (the Global Macro Fund) GBP share class. Subsequently, the investment in the GBP share class was partially redeemed and reinvested into the USD share classes resulting in a realised gain of £458,000. The investments are recognised as an available-for-sale financial asset with unrealised fair value movements recognised in other comprehensive income. The fair value of the Group's investment in the Global Macro 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 is classified as Level 2 under IFRS 13 Fair Value Measurement. The Global Macro Fund is an unlisted equity vehicle based in Ireland.

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

	£'000
At 1 July 2016	5,350
Additions	10
Movement in fair value	445
Disposals	(5,793)
At 30 June 2017	12
Additions	10,043
Movement in fair value	472
Disposals	(5,362)
<b>At 30 June 2018</b>	<b>5,165</b>

## 19. 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 28.

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 2018, a provision of £38,000 (2017: £55,000) 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 2018 £'000	30 June 2017 £'000
Neither past due nor impaired	6,695	4,254
Past due but not impaired:		
– less than three months	931	995
– more than three months	230	370
Impaired:		
– more than three months	38	55
– provision for impairment	(38)	(55)
<b>Total fee receivables</b>	<b>7,856</b>	<b>5,619</b>

The average credit period on fee receivables is 37 days (2017: 27 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.

## 20. OTHER RECEIVABLES

	30 June 2018 £'000	30 June 2017 £'000
Accrued income	13,620	13,088
Prepayments	1,292	1,080
Other assets	4,784	730
	<b>19,696</b>	<b>14,898</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 28.

## 21. 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 2016	688	367	1,055
Additions	2	–	2
At 30 June 2017	690	367	1,057
Additions	197	307	504
Disposals	(330)	(243)	(573)
Re-classification	16	(16)	–
<b>At 30 June 2018</b>	<b>573</b>	<b>415</b>	<b>988</b>
<b>Accumulated depreciation:</b>			
At 1 July 2016	576	102	678
Depreciation charge	73	43	116
At 30 June 2017	649	145	794
Disposals	(330)	(233)	(563)
Re-classification	9	(9)	–
Depreciation charge	37	119	156
<b>At 30 June 2018</b>	<b>365</b>	<b>22</b>	<b>387</b>
<b>Net book value:</b>			
At 30 June 2017	41	222	263
<b>At 30 June 2018</b>	<b>208</b>	<b>393</b>	<b>601</b>

## 22. TRADE AND OTHER PAYABLES

	30 June 2018 £'000	30 June 2017 £'000
Trade payables	978	1,042
VAT payable	861	697
Remuneration accruals	13,353	14,210
Other accruals and payables	7,145	2,716
Deferred income	36	34
	<b>22,373</b>	<b>18,699</b>

The Group's policy on financial instruments can be found in note 28.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 23. PROVISIONS

#### FCA competition matter

On 29 November 2017, the FCA issued a statement of objection to four asset managers including RAMAM, alleging a breach of competition law concerning the disclosure and/or acceptance of information about the pricing for shares in relation to one IPO and one placing. This was a provisional finding and may not necessarily lead to an infringement decision.

The matter does not affect any clients of RAMAM or the NAV of any fund or segregated mandate.

RAMAM and the Group have cooperated fully with the matter and are pursuing a robust defence. In the prior year, the matter was noted as a contingent liability. Following receipt of guidance from the FCA on the likely quantum of penalty should one be imposed, the Directors have recognised a provision of £109,000 in respect of this matter.

#### Operational error

An operational error has been identified relating to the treatment of transaction taxes in a single segregated mandate. The matter is ongoing however, following investigation, the Directors have deemed it prudent to recognise a provision of £1,100,000 with a corresponding insurance recovery asset of £1,000,000 which is included in other receivables (note 20).

	Total £'000
Balance as at 1 July 2017	–
Additions during the year	2,100
Reversed during the year	(891)
<b>Balance as at 30 June 2018</b>	<b>1,209</b>

### 24. SHARE CAPITAL

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

	30 June 2018		30 June 2017	
	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 non-dilutive share awards (note 7). The shares held are measured at cost.

	£'000
Opening balance at 1 July 2017	4,766
Acquisition of shares by the EBT	1,665
Disposal of shares in respect of award vesting	(1,450)
<b>Balance as at 30 June 2018</b>	<b>4,981</b>

### 25. OTHER RESERVES

	30 June 2018 £'000	30 June 2017 £'000
Available-for-sale reserve (including deferred tax)	13	1
Foreign exchange reserve	400	380
Capital redemption reserve	84	84
Merger reserve	44,433	44,433
Capital contribution reserve	4,442	4,442
	<b>49,372</b>	<b>49,340</b>

The available-for-sale reserve represents the unrealised fair value movements in available-for-sale financial assets (note 18). 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 28. 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 historical 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.

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

	30 June 2018 £'000	30 June 2017 £'000
No later than one year	1,268	724
Later than one year and no later than five years	3,099	2,426
Later than five years	352	513
	<b>4,719</b>	<b>3,663</b>

## 27. 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 were no significant transactions with Pacific Investments during the prior year.

### Significant transactions with PSG

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
<b>Administrative charges from PSG:</b>		
Office facilities	1,010	931
Technology and communications	–	470
<b>Total administrative charges</b>	<b>1,010</b>	<b>1,401</b>

### Receivables and payables with related parties

	30 June 2018 £'000	30 June 2017 £'000
<b>Amount due to related party:</b>		
PSG	(11)	(224)
<b>Total</b>	<b>(11)</b>	<b>(224)</b>

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.

## 28. 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 asset 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 is evaluated on a fair value basis, in accordance with the Group's documented risk management strategy, and information about the grouping is provided internally on that basis.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 28. FINANCIAL INSTRUMENTS *continued*

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

#### Categories of financial instruments

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

	30 June 2018 £'000	30 June 2017 £'000
<b>Financial assets</b>		
Cash and cash equivalents	24,029	30,759
Investment management balances	13,116	62,138
Fee receivables	7,856	5,619
Other receivables	18,404	13,818
<b>Total loan and receivables</b>	<b>63,405</b>	<b>112,334</b>
Available-for-sale investments	5,165	12
<b>Total available-for-sale</b>	<b>5,165</b>	<b>12</b>
<b>Total financial assets</b>	<b>68,570</b>	<b>112,346</b>

Other receivables exclude prepayments.

	30 June 2018 £'000	30 June 2017 £'000
<b>Financial liabilities</b>		
Investment management balances	13,147	60,317
Trade and other payables	22,336	17,439
<b>Total other liabilities at amortised cost</b>	<b>35,483</b>	<b>77,756</b>
<b>Total financial liabilities</b>	<b>35,483</b>	<b>77,756</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.

## 28. 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 Group. The carrying amount of loans and receivables recorded in the financial statements represents the Group's maximum exposure to credit risk. The Group holds 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 19. The Group had no single fee receivable balance at year end that is material to the Group (2017: none).

The banks with whom the Group deposits cash and cash equivalent balances are monitored, including their credit ratings (note 16).

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 £13.1m (2017: £62.1m) 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.

### 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 are shown below in GBP:

	30 June 2018 £'000	30 June 2017 £'000
Fee receivables	479	643
Cash and cash equivalents	820	615
Payables	(2,973)	(868)
Other assets	1,564	–
Available for sale assets	5,046	–
<b>Total</b>	<b>4,936</b>	<b>390</b>

A 10% fluctuation in the exchange rate between foreign currencies and UK Pounds sterling on the outstanding foreign currency denominated monetary items at year end balances would result in a gain or loss of £494,000 (2017: £39,000).

The majority of the Group's other foreign currency exposure is with its US based subsidiary River and Mercantile LLC. As at 30 June 2018, River and Mercantile LLC had net assets of \$1,685,000 (2017: \$1,895,000) thus any future fluctuations in the exchange rate will have a limited impact on the Group and are therefore considered a low risk.

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

### Market risk – interest rate risk management

The Group has minimal exposure to interest rate risk. The Group has no external borrowings, 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 26 discloses the future aggregate minimum lease payments at the balance sheet date, net of rebates over the life of the contracts.

At 30 June 2018 the Group had cash and cash equivalents of £24.0m (2017: £30.8m).

As ACD of River and Mercantile Funds ICVC (the Fund), some of the operating cash balance of RAMAM is held in an 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 2018, £2.8m (2017: £1.1m) of the cash and cash equivalents balance related to the ACD account.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 28. FINANCIAL INSTRUMENTS continued

## 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	> 12 months £'000
<b>As at 30 June 2018</b>				
<b>Assets</b>				
Cash and cash equivalents	24,030	–	–	–
Investment management balances	–	13,116	–	–
Fee income receivables	–	7,856	–	–
Other receivables	–	18,374	30	–
<b>Total financial assets</b>	<b>24,030</b>	<b>39,346</b>	<b>30</b>	<b>–</b>
<b>Liabilities</b>				
Investment management balances	–	13,147	–	–
Trade and other payables	–	19,266	80	2,990
<b>Total financial liabilities</b>	<b>–</b>	<b>32,413</b>	<b>80</b>	<b>2,990</b>
<b>Net liquidity surplus/(deficit)</b>	<b>24,030</b>	<b>6,933</b>	<b>(50)</b>	<b>(2,990)</b>
<b>As at 30 June 2017</b>				
<b>Assets</b>				
Cash and cash equivalents	30,759	–	–	–
Investment management balances	–	62,138	–	–
Fee income 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>–</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>–</b>
<b>Net liquidity surplus</b>	<b>30,759</b>	<b>3,449</b>	<b>370</b>	<b>–</b>

## Capital management

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

The Group's capital structure consists of equity (share capital and share premium), other reserves and its 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 (one in the UK, one in the US, and one in both the UK and the US). The Group scrutinises its capital adequacy using the Pillar 2 and ICAAP frameworks which are regulated by the FCA to maintain adequate capital requirements. The Group has complied with its regulatory capital required throughout the period covered by these financial statements.



## 29. 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
River and Mercantile Investments Limited <sup>1</sup>	UK	100/100	30 Coleman St, London, EC2R 5AL	Investment management
P-Solve Holdings Limited <sup>1</sup>	UK	100/100	30 Coleman St, London, EC2R 5AL	Holding company for the US business
River and Mercantile LLC <sup>1,2</sup>	US	100/100	130 Turner St, Waltham, MA 02453	Actuarial and consulting
River and Mercantile Holdings Limited	UK	100/100	30 Coleman St, London, EC2R 5AL	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 Group Services Limited <sup>1,2</sup>	UK	100/100	30 Coleman St, London, EC2R 5AL	Dormant service company
River and Mercantile Group Trustees Limited <sup>1,2</sup>	UK	100/100	30 Coleman St, London, EC2R 5AL	Dormant service company
River and Mercantile Group Employee Benefit Trust	UK	0/0	Heritage Hall, Le Marchant Street, St Peter Port, Guernsey, GY1 4HY	Employee Benefit Trust

1. Indirect holding.

2. Exempt from audit requirements.

River and Mercantile Asset Management LLP has reporting years ending 31 March on a standalone basis. This was the existing year-end date as at acquisition and no change is expected.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 30. 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
IFRS 9 Financial Instruments	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.	1 January 2018
Annual improvements to IFRSs (2014-2016 Cycle)	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.  IFRS12 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.  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.	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
IFRS 16 Leases	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.  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.	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 the following material changes will arise:

- 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; and
- IFRS 9 will lead to the Group's available-for-sale investments being reclassified as fair value through profit or loss.

### 31. 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 5.5 pence per share has been declared, of which 1.3 pence is a special dividend relating to net performance fees. The Directors have proposed a final dividend in respect of the year of 5.5 pence per share, of which 2.3 pence is a special dividend relating to net performance fees.

## COMPANY STATEMENT OF FINANCIAL POSITION

	Note	30 June 2018 £'000	30 June 2017 £'000
<b>Assets</b>			
Cash and cash equivalents	2	7,815	15,182
Other receivables	3	11,053	5,663
Deferred tax asset	4	2,074	2,629
Property, plant and equipment	5	246	19
Intangible assets	6	47	79
Investments	7	57,645	56,941
<b>Total assets</b>		<b>78,880</b>	<b>80,513</b>
<b>Liabilities</b>			
Payables	8	7,902	5,980
<b>Total liabilities</b>		<b>7,902</b>	<b>5,980</b>
<b>Net assets</b>		<b>70,978</b>	<b>74,533</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		7,660	11,215
<b>Equity attributable to owners</b>		<b>70,978</b>	<b>74,533</b>

The Company's profit for the year was £11,990,000 (2017: £7,461,000).

## COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance as at 30 June 2016	246	14,688	48,384	9,097	72,415
Comprehensive income for the year:					
Profit for the year	–	–	–	7,461	7,461
Total comprehensive income for the year	–	–	–	7,461	7,461
Transactions with owners:					
Dividends	–	–	–	(9,345)	(9,345)
Share-based payment expense	–	–	–	2,039	2,039
Deferred tax on share-based payment expense	–	–	–	1,963	1,963
Total transactions with owners:	–	–	–	(5,343)	(5,343)
Balance as at 30 June 2017	246	14,688	48,384	11,215	74,533
Comprehensive income for the year					
Profit for the year	–	–	–	11,990	11,990
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>11,990</b>	<b>11,990</b>
Transactions with owners					
Dividends	–	–	–	(17,456)	(17,456)
Share-based payment expense	–	–	–	2,360	2,360
Disposal of EBT shares	–	–	–	95	95
Deferred tax on share-based payment expense	–	–	–	(544)	(544)
<b>Total transactions with owners</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(15,545)</b>	<b>(15,545)</b>
<b>Balance as at 30 June 2018</b>	<b>246</b>	<b>14,688</b>	<b>48,384</b>	<b>7,660</b>	<b>70,978</b>

## COMPANY STATEMENT OF CASH FLOWS

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
<b>Cash flow from operating activities</b>		
Loss before interest, tax and dividends from subsidiaries	(9,061)	(9,696)
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	80	20
Amortisation of intangible assets	37	–
EBT funding	1,773	3,582
Share-based payment expense	1,657	856
<b>Operating cash flow before movement in working capital</b>	<b>(5,514)</b>	<b>(5,238)</b>
(Increase)/decrease in operating assets	(5,435)	4,171
Increase in operating liabilities	1,539	4,281
<b>Cash (used in)/generated from operations</b>	<b>(9,410)</b>	<b>3,214</b>
Taxation (paid)/received	(92)	788
<b>Net cash (used in)/generated from operations</b>	<b>(9,502)</b>	<b>4,002</b>
<b>Cash flow from investing activities</b>		
Purchase of intangible assets	–	(79)
Purchases of property, plant and equipment	(307)	(2)
Interest received/(paid)	31	(7)
Dividends received from subsidiaries	21,500	16,550
<b>Net cash generated from investing activities</b>	<b>21,224</b>	<b>16,462</b>
<b>Cash flow from financing activities</b>		
EBT funding settled	(1,728)	(3,570)
EBT disposal of shares	95	–
Dividends paid	(17,456)	(9,345)
<b>Net cash used in financing activities</b>	<b>(19,089)</b>	<b>(12,915)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(7,367)</b>	<b>7,549</b>
Cash and cash equivalents at beginning of year	15,182	7,633
<b>Cash and cash equivalents at end of year</b>	<b>7,815</b>	<b>15,182</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 2017.

### Principal place of business

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

### Result for the year

The profit after tax for the year ended 30 June 2018 was £11,990,000 (2017: £7,461,000). This includes a charge of £1,773,000 relating to funding provided to the Group's EBT (2017: £3,582,000).

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 the income statement.

### Employees

The Company had an average of 34 employees during the year (2017: 16). Total remuneration costs were £10,100,000 (2017: £8,060,000).

### Dividends

See note 15 of the consolidated financial statements.

## 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and at bank, 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 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	7,815	A2/Stable	Moody's

## 3. OTHER RECEIVABLES

	30 June 2018 £'000	30 June 2017 £'000
Taxes and social security	226	202
Prepayments and accrued income	552	336
Amounts owed from Group undertakings	10,223	5,029
Other debtors	52	96
	<b>11,053</b>	<b>5,663</b>

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



## NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

## 4. TAX

The Company's accounting policy in respect of tax is the same as that of the Group as detailed in note 13 of the consolidated financial statements.

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Current tax on profits for the year	28	(332)
Adjustments in respect of prior years	444	–
<b>Total current tax</b>	<b>472</b>	<b>(332)</b>
Deferred tax on origination and reversal of timing differences	13	(229)
<b>Total tax charge/(credit)</b>	<b>485</b>	<b>(561)</b>

The tax assessed for the year is lower (2017: lower) than the average standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Profit before tax	12,013	10,381
Profit before tax multiplied by the average rate of corporation tax in the UK of 19% (2017: 19.75%)	2,282	2,050
Effects of:		
Income not assessable to tax	(4,085)	(3,268)
Group relief	1,802	1,218
Other timing differences	42	(561)
Adjustment in respect of prior years	444	–
<b>Total tax credit</b>	<b>485</b>	<b>(561)</b>

	30 June 2018 £'000	30 June 2017 £'000
<b>Deferred tax assets:</b>		
At beginning of year	2,629	437
(Charge)/credit to the income statement – share-based payment expense	(11)	229
(Charge)/credit to equity – share-based payment expense	(544)	1,963
<b>At year end</b>	<b>2,074</b>	<b>2,629</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.

	Office equipment £'000	Leasehold improvements £'000	Total £'000
<b>Cost:</b>			
At 30 June 2017	–	42	42
Additions	73	234	307
Disposals	–	(33)	(33)
<b>At 30 June 2018</b>	<b>73</b>	<b>243</b>	<b>316</b>
<b>Accumulated depreciation:</b>			
At 30 June 2017	–	23	23
Disposals	–	(33)	(33)
Depreciation charge	10	70	80
<b>At 30 June 2018</b>	<b>10</b>	<b>60</b>	<b>70</b>
<b>Net book value:</b>			
At 30 June 2017	–	19	19
<b>At 30 June 2018</b>	<b>63</b>	<b>183</b>	<b>246</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 30 June 2017	79	79
Exchange difference	5	5
<b>At 30 June 2018</b>	<b>84</b>	<b>84</b>
<b>Accumulated amortisation and impairment:</b>		
At 30 June 2017	–	–
Amortisation charge	37	37
<b>At 30 June 2018</b>	<b>37</b>	<b>37</b>
<b>Net book value:</b>		
At 30 June 2017	79	79
<b>At 30 June 2018</b>	<b>47</b>	<b>47</b>

## 7. INVESTMENTS IN SUBSIDIARIES

	30 June 2018 £'000	30 June 2017 £'000
At start of year	56,941	55,756
Additions – share-based payments in subsidiaries	704	1,185
<b>At end of year</b>	<b>57,645</b>	<b>56,941</b>

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

## 8. PAYABLES

	30 June 2018 £'000	30 June 2017 £'000
Taxes and social security	329	–
Amounts owed to Group undertakings	715	–
Trade payables	555	636
Accruals and deferred income	6,303	5,344
	<b>7,902</b>	<b>5,980</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 24 of the consolidated financial statements.

## 10. SHARE PREMIUM

Full details of any 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. Details on the nature of the other reserves in the Company can be found in note 25 of the consolidated financial statements.

A breakdown of other reserves is detailed below.

	30 June 2018 £'000	30 June 2017 £'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 2018, the Company had £11,527,000 of distributable reserves (2017: £15,082,000).

## NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

## 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 28 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 2018 £'000	30 June 2017 £'000
Financial assets classified as loans and receivables		
Cash and cash equivalents	7,815	15,182
Other receivables	10,501	3,133
<b>Total financial assets</b>	<b>18,316</b>	<b>18,315</b>

Other receivables exclude prepayments and accrued income.

	30 June 2018 £'000	30 June 2017 £'000
Financial liabilities held at amortised cost		
Payables	1,599	636
<b>Total financial liabilities</b>	<b>1,599</b>	<b>636</b>

Payables exclude accruals and deferred income.

**Credit risk management**

Credit risk refers to the risk that counterparty defaults on their contractual obligations resulting in financial loss to the Company. The carrying amount of loans and receivables recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company held no collateral as security against any financial asset. Credit risk arises principally from the Company's 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 floating 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 do not take account of any cash flows generated from profits on normal trading activities.

	On demand £'000	< 3 months £'000	3-12 months £'000
<b>As at 30 June 2018</b>			
<b>Assets</b>			
Cash and cash equivalents	7,815	–	–
Other receivables	–	10,501	–
<b>Total financial assets</b>	<b>7,815</b>	<b>10,501</b>	<b>–</b>
<b>Liabilities</b>			
Payables	–	7,521	381
<b>Total financial liabilities</b>	<b>–</b>	<b>7,521</b>	<b>381</b>
<b>Net liquidity surplus</b>	<b>7,815</b>	<b>2,980</b>	<b>(381)</b>
<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>

Other receivables exclude prepayments and payables exclude deferred income.

**13. DIRECTORS' REMUNERATION**

Details of the individual Director's remuneration can be found in the Directors' Remuneration report starting on page 50.

**14. RELATED PARTIES**

Details of related party transactions can be found in note 27 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 their remuneration separately in these financial statements.

A second interim dividend in respect of the year of 5.5 pence per share has been declared, of which 1.3 pence is a special dividend relating to net performance fees. The Directors have proposed a final dividend in respect of the year of 5.5 pence per share, of which 2.3 pence is a special dividend relating to net performance fees.

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

**Buy-in** – 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** – 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.

**CAGR** – Compound annual growth rate

**CGU** – Cash generating unit

**CIO** – Chief Investment Officer

**CMA** – Competition and Markets Authority

**CSAM** – Credit Suisse Asset Management

**DAA** – Dynamic asset allocation

**DB** – Defined benefit

**DC** – Defined contribution

**DEP** – Deferred equity plan

**EBT** – Employee Benefit Trust

**EM** – Emerging markets

**EMAR** – Emerging Market Absolute Return

**EMIR** – European Market Infrastructure Regulation

**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

**ESMA** – European Securities and Market Authority

**ETF** – Exchange traded fund

**FCA** – Financial Conduct Authority

**FRC** – Financial Reporting Council

**GDPR** – General Data Protection Regulation

**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

**IME** – Investment Management Entities

**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

**Mandated AUM/NUM** – Represent 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.

**MiFIR** – Markets in Financial Investments Regulation

**MiFID** – Markets in Financial Instruments Directive

**NAV** – Net asset value

**NUM** – Notional under management. This is the contract or billing notional amount of a contract in the Derivatives Solutions division and is analogous to AUM.

**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.

**RAMAM** – River and Mercantile Asset Management LLP

**Redemptions in transition** – 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.

**RMMIC** – River and Mercantile Micro Cap Investment Company

**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

**VWAP** – Volume-weighted average price

**WACC** – Weighted average cost of capital

**YoY** – Year-on-year

# SHAREHOLDER INFORMATION AND ADVISORS

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## REGISTERED OFFICE

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## COMPANY SECRETARY

Sally Buckmaster

## WEBSITE

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

## ANNUAL GENERAL MEETING

5 December 2018 at 9am  
88 Wood Street  
London  
EC2V 7QR

## 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 2018

**Amount**  
5.5 pence per ordinary share

**Ex-dividend date**  
22 November 2018

**Record date**  
23 November 2018

**Payment date**  
14 December 2018

## 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

## Canaccord Genuity Limited

88 Wood Street  
London  
EC2V 7QR

## 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



