



FLASH UPDATE

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# River and Mercantile Sale of Solutions Business

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## **Solutions business up for sale**

On 10 August 2021 River and Mercantile (R&M) confirmed that their Solutions division has received a number of approaches from external parties wishing to purchase this part of the business. A statement from James Barham, Group Chief Executive notes that “we are at an early stage of these discussions, but at this time there is no certainty that this will result in any transaction”. Lazard and Fenchurch Advisory Partners have been appointed to advise the board on any move.

River and Mercantile Asset Management LLP, comprising the Group’s equity, infrastructure, and liquid alternatives asset offerings is not being sold.

## **Scope of Solutions Business**

Solutions is the group’s specialist fiduciary manager, which encompasses fiduciary, advisory and derivatives. Solutions work with schemes across the spectrum from pure advisory to full fiduciary with assets under advisement of £34.7bn at 31 December 2020. Fiduciary management represents around a third of total revenue at Group level.

River and Mercantile Solutions (R &M) was formed from the merger of River and Mercantile, an equity investment house, and PSolve, an investment consultancy and fiduciary management firm with LDI and derivatives investment capability in 2014. They now have a sizable client book, with 89 full fiduciary management clients and 17 partial fiduciary management clients. They also work with 17 advisory clients.

## IC Select View

Across the group, R&M have been investing heavily in client facing and distribution functions in the last few years, with substantial growth targets. A sale of the Solutions arm will allow for investment and growth in the retained asset management teams. Since the merger with PSolve in 2014 the Board believes that the Group share price does not reflect the sum of the business divisions. We note there is concentrated share ownership, with the top ten shareholders owning over 70% of total issued share capital.

River and Mercantile have put golden chains around all key personnel until the outcome of the disposal is known, protecting their current service to clients

We believe there are three possible outcomes to the sale process:

1. That the winning bid comes from an organisation with little or no presence in the UK fiduciary management (FM) market. The Solutions business would then be transferred largely intact to the winning bidder providing a ready-made foothold into the arena for the successful firm.
2. The second option is that the acquirer's interest is solely in the assets, effectively hollowing out the business to increase their scale of assets under management.
3. The third option is that no sale occurs.

For existing fiduciary management clients, we believe the preferred outcome, and the most likely, is option 1, a complete lift out of the Solutions business segment. People, investment strategy, philosophy and process will remain largely intact, effectively resulting in minimal change to the service. The most significant change will be the change in company name. However, until details of any sale emerge, there remains a risk that some key individuals will not transfer with the business potentially weakening decision making capability.

Outcomes two and three are less optimal for fiduciary management clients. We expect an acquirer, solely wishing the assets, will transition portfolios to match their existing investment processes. If a sale is not agreed uncertainty will linger, with future bids possibly being made at a later date.

Advisory clients should prepare for possible disruption under the first two outcomes. Even if the winning bidder keeps the FM business intact, they may sell on or wind-down their advisory service.

**There is no immediate cause for concern for existing clients. It may be a couple of months until the outcome is clear, so we recommend clients maintain a watching brief on developments.** IC Select are monitoring the situation carefully and are speaking regularly to River and Mercantile. We will communicate more details as they become available.