

**Hand Composite Employee Benefit Trust
River and Mercantile Long Credit Fund**
Independent Auditor's Report and Financial Statements
December 31, 2019



Hand Composite Employee Benefit Trust
December 31, 2019

Contents

Independent Auditor's Report 1

Basic Financial Statements

Statement of Assets and Liabilities – Selected Fund 3

Schedule of Investments

 River and Mercantile Long Credit Fund 4

Statement of Operations – Selected Fund 5

Statement of Changes in Net Assets – Selected Fund 6

Notes to Financial Statements 7

Supplemental Information

Schedule of Investment Purchases and Sales – Selected Fund 12

Independent Auditor's Report

Board of Directors
Hand Composite Employee Benefit Trust
Houston, Texas

We have audited the accompanying financial statements of River and Mercantile Long Credit Fund included in the Hand Composite Employee Benefit Trust ("Trust" or "Fund"), which statements comprise the statement of assets and liabilities, including the schedule of investments, as of December 31, 2019, and the related statements of operations and changes in net assets for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the selected fund included in the Hand Composite Employee Benefit Trust as of December 31, 2019, and the results of its operations and changes in its net assets for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of investment purchases and sales listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Houston, Texas
May 29, 2020

Hand Composite Employee Benefit Trust
Statement of Assets and Liabilities – Selected Fund
Year Ended December 31, 2019

| | River and Mercantile Long Credit Fund |
|--|--|
| Assets | |
| Investments, at cost | \$ 200,939,775 |
| Investments, at fair value | \$ 207,436,282 |
| Receivable for dividends and interest | 4,919 |
| Total assets | \$ 207,441,201 |
| Liabilities | |
| Accounts payable and accrued liabilities | \$ 32,927 |
| Total liabilities | \$ 32,927 |
| Net assets held for participants - Class R | \$ 207,408,274 |
| Units outstanding - Class R | 13,056,310 |
| Net asset value per unit - Class R | \$ 15.89 |

Hand Composite Employee Benefit Trust
Schedule of Investments
River and Mercantile Long Credit Fund
December 31, 2019

| Number of Shares or Principal Amount | | Cost | Fair Value |
|---|--|---------------------------|----------------|
| <u>Short Term Investment</u> | | | |
| 4,199,238 | BlackRock Liq Treas Tr Instl Var RT 12/31/2049 dd 01/31/12 | \$ 4,199,238 | \$ 4,199,238 |
| | Total Short Term Investment | 2.02% 4,199,238 | 4,199,238 |
| <u>U.S. Government Obligation</u> | | | |
| \$ 7,486,000 | U S Treasury Bd Prin Strip 0% 02/15/2049 | 3,912,076 | 3,714,194 |
| | Total U.S. Government Obligation | 1.79% 3,912,076 | 3,714,194 |
| <u>Mutual Funds</u> | | | |
| <i>Fixed Income</i> | | | |
| 3,740,743 | PIMCO Lng-trm Crdt Bnd-Ins | 46,106,573 | 48,330,396 |
| 3,718,322 | Vanguard L/T Invest Gr-Adm | 39,465,936 | 40,715,629 |
| | Total Fixed Income | 42.93% 85,572,509 | 89,046,025 |
| | Total Mutual Funds | 42.93% 85,572,509 | 89,046,025 |
| <u>Exchange-traded Funds</u> | | | |
| <i>Fixed Income</i> | | | |
| 145,113 | iShares Long-term Corporate | 9,210,544 | 9,674,684 |
| 95,538 | Vanguard Long-term Corp Bond | 9,204,484 | 9,683,732 |
| | Total Fixed Income | 9.33% 18,415,028 | 19,358,416 |
| | Total Exchange-traded Funds | 9.33% 18,415,028 | 19,358,416 |
| <u>Common Trust Funds</u> | | | |
| <i>Fixed Income</i> | | | |
| 3,552,035 | Western Asset Long Duration Credit R2 | 46,000,908 | 48,449,753 |
| 4,284,002 | SLC Management U.S. Long Credit Fund CIT | 42,840,016 | 42,668,656 |
| | Total Fixed Income | 43.93% 88,840,924 | 91,118,409 |
| | Total Common Trust Funds | 43.93% 88,840,924 | 91,118,409 |
| | Total Investments | 100.00% \$ 200,939,775 | \$ 207,436,282 |

Hand Composite Employee Benefit Trust
Statement of Operations – Selected Fund
Year Ended December 31, 2019

| | River and Mercantile Long Credit Fund |
|---|--|
| Income | |
| Interest | \$ 1,405,211 |
| Dividends | 3,746,041 |
| Total income | 5,151,252 |
| Expenses | |
| Investment management and administrative | 160,436 |
| Custody fees | 69,801 |
| Total expenses | 230,237 |
| Net Investment Income | 4,921,015 |
| Net Realized and Unrealized Gains on Investments | |
| Net realized gains | 8,189,975 |
| Net change in unrealized appreciation | 14,145,091 |
| Net realized and unrealized gains on investments | 22,335,066 |
| Net Increase in Net Assets Resulting From Operations | \$ 27,256,081 |

Hand Composite Employee Benefit Trust
Statement of Changes in Net Assets – Selected Fund
Year Ended December 31, 2019

| | River and Mercantile Long Credit Fund |
|---|--|
| Operations | |
| Net investment income | \$ 4,921,015 |
| Net realized gains | 8,189,975 |
| Change in unrealized appreciation | <u>14,145,091</u> |
| Net increase in net assets from operations | 27,256,081 |
| Net Increase in Net Assets From Participant Transactions | <u>71,795,736</u> |
| Increase in Net Assets Held for Participants | 99,051,817 |
| Net Assets Held for Participants | |
| Beginning of year | <u>108,356,457</u> |
| End of year | <u><u>\$ 207,408,274</u></u> |

Hand Composite Employee Benefit Trust

Notes to Financial Statements

December 31, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Hand Composite Employee Benefit Trust ("HB&T" or "the Trust") was created in order to provide broad and uniform diversification programs for pension and profit sharing plans which, having complied with the requirements of the Internal Revenue Code (the IRC), are exempt from taxation under the provisions of the IRC. The Trust is comprised of 76 portfolios (the Funds); the financial statements of one of those funds is included in this report.

The River and Mercantile Return Seeking Fund was closed on November 15, 2019.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of investment income and expenses during the reporting period. Actual results could differ from those estimates.

Investment Valuation

All investments in securities are recorded at their estimated fair value. Transfers in and out of Level 1 (quoted market prices), Level 2 (significant other observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period-ending date.

Investment Transactions

Investment transactions are recorded on trade date. Realized gains and losses from investment transactions and unrealized appreciation or depreciation on investments are determined using the identified cost basis.

Investment Income and Distribution of Income

Dividend income less foreign taxes withheld, if any, is recorded on the ex-dividend date and interest income is recorded on the accrual basis and includes accretion of discounts and amortization of premiums. Investment income is allocated ratably on the valuation dates among all participants. No distributions are made to participants in the Fund until units owned are redeemed, at which time the market value of redeemed units is distributed. Investment income and realized gains (if any) earned by these other funds are reinvested, thereby increasing the respective unit values.

Hand Composite Employee Benefit Trust

Notes to Financial Statements

December 31, 2019

Valuation of Participants' Interest

Units of participation may be purchased or redeemed on the valuation dates at the fair value per unit on such valuation dates. The Fund is valued daily.

Federal Income Taxes

The Fund complies with the requirements under Section 501(a) of the IRC and apportion all of their taxable income to their participants. Therefore, no federal income tax provision is required.

Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Fund. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Subsequent events have been evaluated through May 29, 2020, which is the date the financial statements were available to be issued.

Investment Management Advisor

The investment management advisor for the Fund is River and Mercantile Group PLC.

Note 2: Investment Advisory Fees and Other Transactions With Affiliates

The Fund is charged an administrative fee by HB&T for trustee/administrative services (fund accounting services, transfer-agency services, trustee services, etc.). The Fund has also entered into an investment advisory and service agreement with a third-party advisor. These fees compensate the advisor for the services it provides and for expenses borne by the advisor under the agreement.

The following table indicates the fees charged to the Fund and the various classes of units within the Fund (as a percentage of net assets). These charges are calculated using the Fund's average daily net assets:

| Fund | Administrative Fees | Investment Advisory Fees | Other Fees | Total Fees |
|--|----------------------------|---------------------------------|-------------------|-------------------|
| River and Mercantile Long Credit Fund: Class R | 0.07% | 0.00% | 0.02% | 0.09% |

Hand Composite Employee Benefit Trust

Notes to Financial Statements

December 31, 2019

Note 3: Financial Highlights

| | River and Mercantile Long Credit Fund | |
|---|--|--------------|
| | <u>\$</u> | |
| Net asset value, beginning of year | 12.99 | |
| Net investment income | | 0.49 |
| Net realized and unrealized gains | | 2.41 |
| Net increase from investment operations | | 2.90 |
| Net asset value, end of year | <u>\$</u> | <u>15.89</u> |
| Total return | | 22.32% |
| Ratio to average net assets: | | |
| Net investment income | | 3.26% |
| Expenses | | 0.15% |

Note 4: Participant Unit Transactions

| | River and Mercantile Long Credit Fund | |
|---|--|----------------------|
| | <u>Units</u> | <u>Dollars</u> |
| Class R: | | |
| Proceeds from sales of units | 5,222,180 | \$ 79,710,125 |
| Cost of units redeemed | (509,094) | (7,914,389) |
| Net increase in Class R from participant transactions | <u>4,713,086</u> | <u>\$ 71,795,736</u> |

Note 5: Disclosures About Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1:** Quoted prices in active markets for identical assets or liabilities that the Funds can access at the measurement date.
- Level 2:** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Hand Composite Employee Benefit Trust

Notes to Financial Statements

December 31, 2019

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of assets and liabilities, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019.

Short Term Investments. Short term investments, including money market funds, for which market quotations are readily available, are valued at the last reported sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded and are categorized as Level 1 in the hierarchy.

U.S. Government Obligations. U.S. Government obligations are valued using models that incorporate market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers and reference data. Certain securities are valued principally using dealer quotations. These securities are categorized as Level 2 in the hierarchy.

Mutual Funds and Exchange-traded Funds. Securities traded on a national securities exchange (or reported on the NASDAQ national market) are valued at the last reported sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded and are categorized as Level 1 in the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying statement of assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019:

| | Fair Value | Fair Value Measurements Using | | |
|--|-----------------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| River and Mercantile Long Credit Fund | | | | |
| Short Term Investment | \$ 4,199,238 | \$ 4,199,238 | \$ - | \$ - |
| U.S. Government Obligation | 3,714,194 | - | 3,714,194 | - |
| Mutual Funds - Fixed Income | 89,046,025 | 89,046,025 | - | - |
| Exchange-traded Funds - Fixed Income | 19,358,416 | 19,358,416 | - | - |
| Common Trust Funds - Fixed Income (A) | 91,118,409 | | | |
| Total | <u>\$ 207,436,282</u> | | | |

(A) Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of assets and liabilities.

Hand Composite Employee Benefit Trust

Notes to Financial Statements

December 31, 2019

Note 6: Risk Factors

The Fund invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of assets and liabilities.

Supplemental Information

Hand Composite Employee Benefit Trust
Schedule of Investment Purchases and Sales – Selected Fund
River and Mercantile Long Credit Fund
Year Ended December 31, 2019

Purchases

| Investment Class | Cost |
|--------------------------------------|-----------------------|
| U.S. Government Obligations | \$ 36,731,841 |
| Non-U.S. Government Obligations | 1,109,574 |
| Corporate Bonds | 106,819,307 |
| Municipal Bonds | 3,387,486 |
| Mutual Funds - Fixed Income | 37,859,801 |
| Exchange-traded Funds - Fixed Income | 14,474,355 |
| Private Placements | 6,028,688 |
| Common Trust Funds | 46,000,908 |
| | <u>46,000,908</u> |
| Total Investments Purchased | <u>\$ 252,411,960</u> |

Sales

| Investment Class | Proceeds | Cost | Gain |
|--------------------------------------|-----------------------|-----------------------|---------------------|
| U.S. Government Obligations | \$ 36,598,403 | \$ 35,880,653 | \$ 717,750 |
| Non-U.S. Government Obligations | 1,603,808 | 1,540,999 | 62,809 |
| Corporate Bonds | 93,133,409 | 89,541,700 | 3,591,709 |
| Municipal Bonds | 4,050,679 | 3,933,829 | 116,850 |
| Mutual Funds - Fixed Income | 28,492,460 | 25,776,844 | 2,715,616 |
| Exchange-traded Funds - Fixed Income | 6,230,096 | 5,498,069 | 732,027 |
| Private Placements | 7,780,028 | 7,526,814 | 253,214 |
| | <u>7,780,028</u> | <u>7,526,814</u> | <u>253,214</u> |
| Total Investments Sold | <u>\$ 177,888,883</u> | <u>\$ 169,698,908</u> | <u>\$ 8,189,975</u> |