

Fund Manager: Richard Penny

## TM CRUX UK Special Situations Fund

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September saw a decline in global markets and within the US, volatile technology shares contributed to the broader indices weakening. UK and Europe saw a resurgence in COVID-19 cases leading to a tightening of restrictions and a delay to economic recovery. In the UK, poor progress towards a Brexit trade deal negatively affected small and mid-cap companies and Sterling declined 3.4% against the dollar. On the back of a strong August, TM CRUX UK Special Situations Fund fell by 3.3% during September, its performance comparator the IA UK All Companies fell by 1.8%.\*

Underperformance came from the fund’s overweight position in small and mid-cap companies with performance also held back by Barclays, Prudential, Whitbread and WH Smith prior to its sale from the portfolio. Stronger performance came from small-cap healthcare stocks including Omega Diagnostics and IP group that provide a ‘hedge’ against increased lockdown measures as they are both involved with the UK’s COVID-19 testing efforts and tend to benefit when lockdown restrictions increase.

Specialty pharmaceutical company Amryt Pharma provided positive news. Amryt Pharma was successful in its phase 3 clinical trial for epidermolysis bullosa (butterfly skin), an untreated rare disease. The company will now submit the data to the FDA with a possible launch in 2021. The end market is reckoned to have a potential value of c\$1billion. Amryt Pharma already has sizable sales in two other rare conditions and a strong balance sheet and we continue to see further upside.

In September, we sold our holding in WH Smith. In the long-term we continue to see the shares as undervalued but with the UK’s lockdown restraints tightening we think it is wise to reduce our exposure. The company operates at airports and railways stations and although people will gradually return to work, on balance, we feel there will be a permanent increase in the work from home environment.

### Important Information

\*Source: FE 31.08.20-30.09.20 Bid-Bid, net income re-invested.

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During the month we started a position in Aviva. Following the appointment of new CEO Amanda Blanc in August the company announced a plan to focus on core operations in the UK, Ireland and Canada. We believe this implies that the Asian and European divisions may be divested with an opportunity for the funds to be used for dividends, buybacks and strengthening an already strong balance sheet. Encouragingly, Aviva has already announced the sale of their Singaporean division for up to £1.6 billion. Aviva has traded at a broad discount to underlying value, and we believe any of these disposals should act as a catalyst for its share price. With management alignment being key to our process, we were reassured by the new CEO buying £1m of shares after her appointment. In the portfolio, Barclays was sold to fund the purchase of Aviva, whilst we believe it continues to be cheap we think Barclays lacks some of the near term catalysts of Aviva and we did not want to increase our financials weighting by owning both.

Four years of Brexit negotiations, COVID-19 and combined with constant negative media coverage of UK markets means that we view UK share prices having negative news priced in. Looking at the price of UK equities and comparing it to the ten-year average of profits, the long term PE suggests the UK is now at similar levels to 2009, a level from which there were high subsequent returns. With a portfolio of carefully selected investments including financials, cyclical sectors and the small-cap market we believe we have the opportunity to take advantage of a mispriced market. These stocks have been the hardest hit, and we believe provide a prospect for a strong future recovery.

#### Important Information

Please note: Due to rounding the figures in the holdings breakdown may not add up to 100%. Unless otherwise indicated all figures are sourced from Financial Express, Datastream, State Street and CRUX Asset Management Ltd. Third party data is believed to be reliable, but its completeness and accuracy is not guaranteed.

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