

Fund Managers: Richard Penny

This is a Marketing Communication

## TM CRUX UK Special Situations Fund

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### Market Performance

The FTSE 100 rose over the quarter but lagged mid and small caps due to higher exposure to underperforming energy stocks. The FTSE 250, FTSE Small-cap and FTSE AIM All-Share drifted lower during October before rebounding strongly amid growing confidence that base interest rates may have peaked, potentially paving the way for rate cuts in 2024 if inflation continues to fall.

### Fund Holdings Q4 2023

Top 5 Holdings (by %)
Shell (5.91)
Glencore (5.35)
AdvancedAdvT (5.33)
Prudential (4.45)
Legal and General (4.38)

Source: CRUX as at 31.12.23

### Fund Performance

Over the period under review, the TM CRUX UK Special Situations Fund (I Accumulation GBP) returned 3.1% against its performance comparator the IA UK All Companies Sector return of 4.5%.

The fund saw a marked recovery in December, returning c.7.9% during the month and outperforming the IA UK All Companies Sector return of 5.4%. Notably, December started to see some recovery in small cap as well as mid cap stocks.

The fund's large allocation to mid and small cap, representing c.2/3rds of the fund, was generally helpful for performance over the quarter as these segments of the market outperformed large cap, particularly in November and December. However, performance was held back by three notable detractors which reported disappointing trading updates.

The largest detractor from performance was CAB Payments, detracting c.1.1% from performance. The fund initiated a position in CAB Payments post IPO following strong updates from management and an attractive valuation relative to peers. During October, management announced a profit warning following liquidity pressures in two of its key trading corridors. The shares now trade on a very low valuation as the market awaits further clarity in the next update. The shares were up c.44% in December, participating strongly in the year-end rally.

FD Technologies shares fell following an announcement of a reduction in near-term

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expected profits. This was partially due to weaker trading in its consulting division which was not wholly unexpected in our view. There was a bigger impact from further investment in the KX division to advance opportunities in Artificial Intelligence, and specifically vector databases. We continue to believe that the sum of the parts is materially undervalued, and we welcome the announcement of a strategic review of the group which could realise some unrecognised value. The shares have recovered strongly since the trading update.

Small-cap Sondrel detracted c.0.6% from fund performance over the quarter after announcing the delay of projects as clients delayed spending amidst the challenging macroeconomic environment. Despite the disappointing project delays in Europe, it is encouraging to note that Sondrel is experiencing significant traction in the US market with a growing pipeline.

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OneSavings Bank Group was the strongest performer over Q4, up c.42% and contributing c.1.5% to fund performance. A trading update in July included a one-off accounting charge due to landlord clients refinancing at a faster rate than expected which led to a material sell-off of the shares. This represented a large overreaction in our view and a strong trading update in November helped reduce the market's concerns and the shares have rallied strongly.

Ascential was a very positive performer for the fund over the quarter, up c.40% and contributing c.1.3% to fund performance. Management announced the sale of two businesses which would result in a distribution to shareholders representing c.90% of the market cap immediately prior to the announcement. We believe that there is an opportunity for further upside and the remaining Events business could represent a very attractive takeover target.

### Transactions

In terms of transactions, Whitbread and Zegona Communications were added to the portfolio. Whitbread's primary market, the UK, has experienced a contraction in supply, particularly as market conditions have accelerated the decline of the independent sector. Whitbread's premier inn offering has enabled it to continue to grow in size while also consistently outperforming the midscale and economy market. We expect conditions to remain tough for independent operators, and Whitbread to continue to grow its share of the market. The German opportunity continues to take shape and profitability is in sight in this exciting new market for Whitbread.

The fund participated in a fundraise by Zegona Communications which is in the process of acquiring Vodafone Spain for €5bn. The acquisition is synonymous with a private equity style deal, with the acquisition predominantly funded with debt and €300m equity raised. The impressive management team of Zegona are highly experienced and have a history of value creation, having generated a shareholder return of c.87% at Euskaltel in 2 years, a c.42% return at Telecable in less than 2 years and a 6x return in c.8 years at Jazztel.

We believe that Zegona have acquired Vodafone Spain at a highly attractive price and due to management's experience in the sector, we believe in their ability to execute a major cost reduction plan and deliver significant cashflow upside. We believe there is a further opportunity for Zegona to realise value from the deal extremely quickly through monetising Vodafone Spain's fixed network via a sale to an infrastructure investor. There

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is also scope to combine the fixed network with other major operators in Spain to form an even more attractive monetizable fixed network asset. Similar transactions are taking place in the market currently with smaller competitor Digi in talks to sell its Spanish fibre network.

### Outlook

The UK stock market is trading at a 30-year high discount relative to the global market, the FTSE 250 is pricing in c.30% earnings cuts (close to that experienced during the global financial crisis of 2008/2009) and small-caps have experienced 2 of the worst 6 years on record since c.1955 in succession. Although past performance is no guide to future returns, periods of weak returns have historically been followed by periods of very strong performance, particularly in small caps. The economic outlook remains uncertain but financial crisis levels of pessimism are already priced into shares despite signs of economic resilience. We remain firm believers in the small-cap premium and the potential for small companies' share prices to go up many multiples on the way out of a recessionary environment, as was demonstrated by the fund's outperformance on the way out of the pandemic, and by Richard Penny's previous funds during the 1998, 2003 and 2008 recoveries. We believe current depressed conditions offer a strong opportunity to buy well-run sensibly financed businesses for the long term.

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The TM CRUX UK Special Situations Fund is a sub-fund of TM CRUX OEIC (the 'Company'). The Company is an investment company with variable capital and is a UCITS Scheme. It is incorporated under the Open-Ended Investment Companies Regulations 2001 ('OEIC Regulations') in England and Wales under registry number IC001022. The Company is regulated by the FCA and was authorised on 10 December 2014. This information is only directed at persons residing in jurisdictions where the Company and its shares are authorised for distribution or where no such authorisation is required.