

Fund Manager: Richard Penny

This is a Marketing Communication

TM CRUX UK Smaller Companies Fund

The TM CRUX UK Smaller Companies Fund (I Accumulation GBP) returned 12.6% against its performance comparator the IA UK Smaller Companies Sector return of 6.0% over the month of May 2024.

At a stock level, Surface Transforms was a strong performer for the Fund after participating in a discounted fundraise. The shares were up c.49% as of the end of May and contributed c.1.4% during the month. Manufacturing scale-up issues appear to have led to lower revenues and higher cash burn than had previously been expected. We took the opportunity to participate in a c.£10m fundraise at a share price of 1p, reflecting a pre-money valuation of just £3.5m, representing a significant discount to the previous fundraise at 10p, the £390m contracted order book and a fraction of invested capital. The new COO appears to be making progress on reducing scrappage and fixing process-line pinch points.

XP Factory (XPF) was a strong positive contributor to performance during the month. The company has been making progress for several months, but the share price seems to have been held down by forced sellers in the market, with many UK funds needing to fund redemptions. Despite no news during May, the shares were up c.29% and contributed c.1.2% to the Fund performance. Inspecs and Distribution Finance Capital Holdings (DFCH) also performed well on no news, up c.25.9% and c.31.2% respectively and contributing c.1.3% and c.0.9% to Fund performance respectively. Although fundamental performance for Inspecs and DFCH has been less impressive than XPF, share price reactions to poor trading updates were disproportionate in our view. It is an encouraging reminder of the performance possible from a relief in selling pressure alone and in our view the shares remain cheap, with a potential upside of >80% for both XPF and DFCH, and >60% for Inspecs based on conservative forecast projections, despite recent progress.

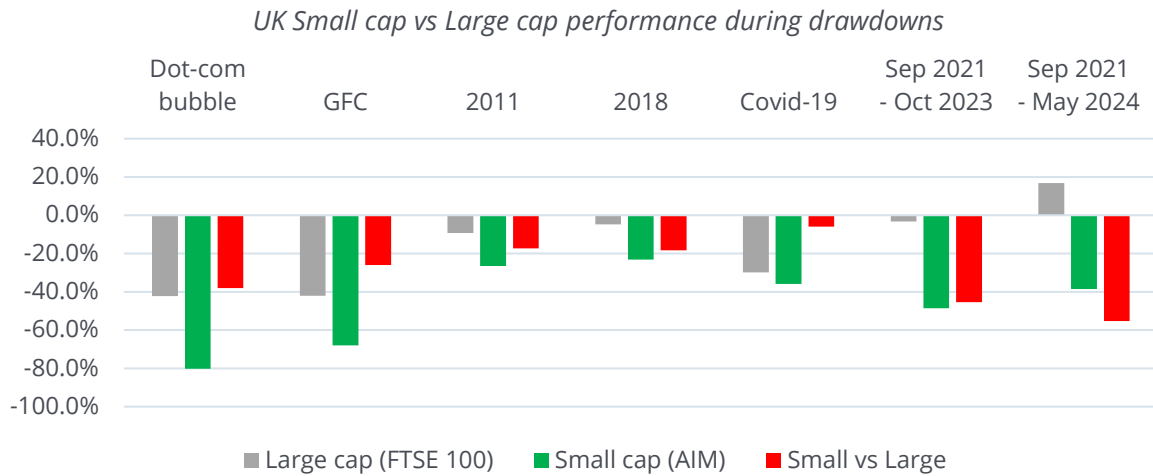
There were no significant detractors from performance, albeit the worst performer was Oxford BioDynamics which was down c.8% and detracted c.0.2% from performance. The shares drifted down awaiting a much-anticipated update.

The fund is well positioned for an economic recovery and falling UK interest rates, we currently expected this to begin in August, which should lead to a positive backdrop of attractive valuations and momentum and a reversal of the outperformance of large-cap defensives experienced over the past 2-3 years. As illustrated by the chart below, the drawdown in UK small-caps experienced since the highs of September 2021 has been the third worst period this century, only behind the bursting of the dot-com bubble and the global financial crisis. However, when looking at the relative performance of small-caps vs large-caps, this recent c.2-3-year period has been significantly worse (dot-com: c.38% underperformance; GFC: c.26% underperformance; and Sep 2021 – May 2024: c.55% underperformance).

Important Information

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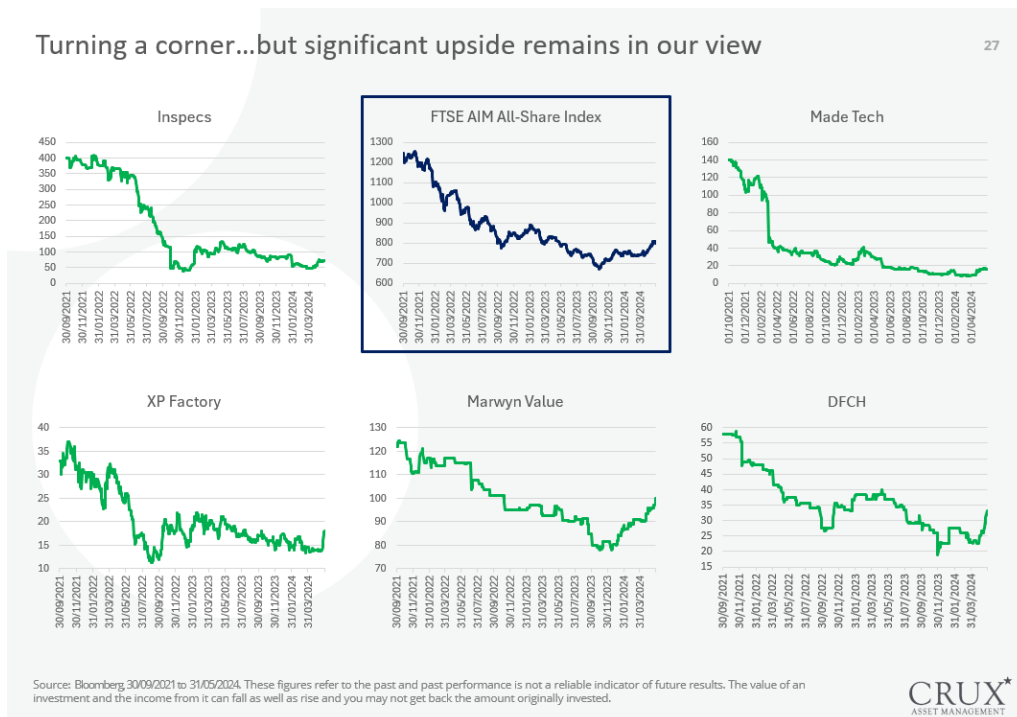
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Source: Bloomberg 31 May 2024

The underperformance of small-caps has been driven by a combination of difficult macroeconomic headwinds and 35 consecutive months of outflows, significantly depressing share prices in less liquid names. Macroeconomic data has been improving and a simple relief in selling pressure has led to significant performance in some cases e.g. Inspecc, XPF and DFCH as discussed above.

Although small-caps have turned a corner, it is important to note the significant upside that remains in our view. Despite the FTSE 100 hitting a new all-time high during May, the FTSE AIM All-Share Index remains c.38.5% below its peak. The charts below illustrate that although a corner has been turned in some of our preferred small-cap holdings, they remain significantly below previous highs. Although previous highs are not the most appropriate benchmark, some share prices do have the potential to return to these levels and surpass them. In our experience it is not unusual for some individual small-caps to go up many multiples in a recovery.

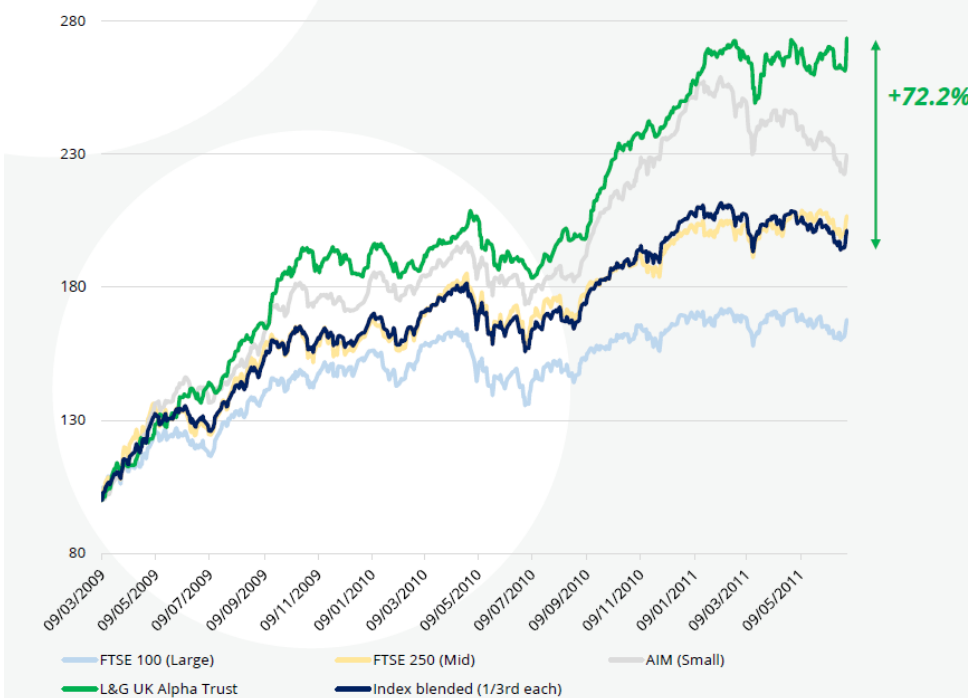


Following the bursting of the dot-com bubble, the FTSE AIM All-Share went up c.111% over a c.2-year period and outperformed the FTSE 100 by c.73%. Following the global financial crisis, the FTSE AIM All-Share Index went up by c.142% and outperformed the FTSE 100 by c.89%. Following the COVID-19 low, the FTSE AIM All-Share Index went up by c.110% over a c.1.5-year period and outperformed the FTSE 100 by c.74%.

As illustrated by the slides below, Fund's managed by Richard Penny have historically outperformed significantly during economic recoveries with the L&G UK Alpha Trust returning c.173% trough to peak following the global financial crisis (GFC) in 2008/2009, outperforming the IA UK All Companies Sector by c.88% and the TM CRUX UK Special Situations Fund returning c.151% trough to peak following the COVID-19 pandemic, outperforming the IA UK All Companies Sector by c.75%, with significant performance coming from small-caps. We believe that with the underperformance of small-caps relative to large caps being at historic levels in the UK, 35 consecutive months of outflows depressing share prices and being on the cusp of expected UK interest rate reductions and an economic recovery sets up the potential for an strong phase of performance for the TM CRUX UK Smaller Companies Fund.

Richard Penny track record – L&G UK Alpha Trust GFC recovery - 9 March 2009 to 30 June 2011

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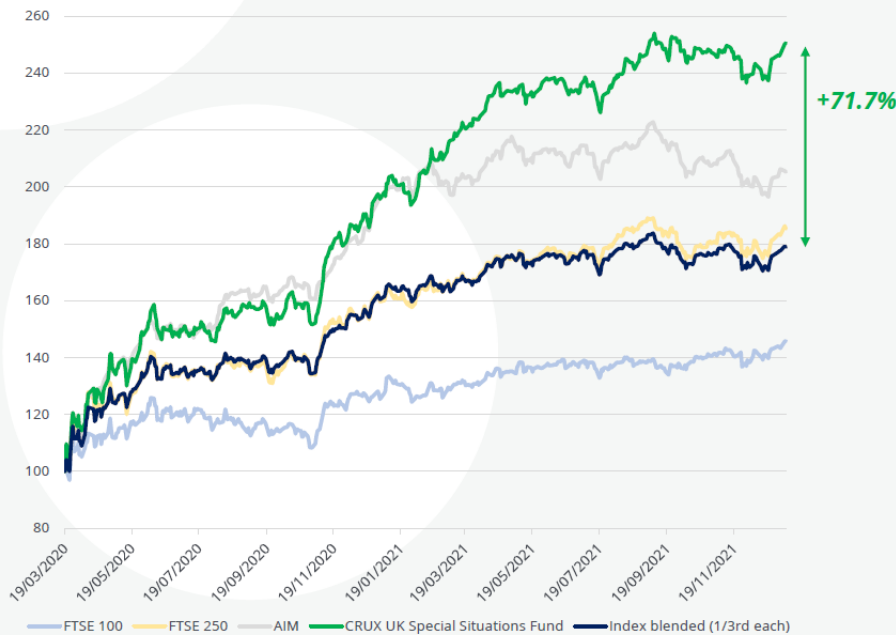


Between 9 March 2009 (IA UK All Companies low) to 30 June 2011 the L&G UK Alpha Trust returned **173%** compared to a 1/3rd FTSE 100, 1/3rd FTSE 250 & 1/3rd AIM blended index return of **101%**, **outperforming this comparator by c.72%**

Source: Bloomberg, 9 March 2009 to 30 June 2011. These figures refer to the past and past performance is not a reliable indicator of future results. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Richard Penny track record taken directly from FE Fund Info Manager track record information.

Richard Penny track record – TM CRUX UK Special Situations Fund
COVID-19 recovery - 19 March 2020 to 5 January 2022

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Between 19 March 2020 (IA UK All Companies low) to 5 January 2022 (high) the TM CRUX UK Special Situations Fund returned **151%** compared to a 1/3rd FTSE 100, 1/3rd FTSE 250 & 1/3rd AIM blended index return of **79%**, **outperforming this comparator by c.72%**

Source: Bloomberg, 19 March 2020 to 5 January 2022. These figures refer to the past and past performance is not a reliable indicator of future results. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Richard Penny track record taken directly from FE Fund Info Manager track record information.

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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