

Fund Manager: Richard Penny

TM CRUX UK Special Situations Fund

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Fund Performance

During Q3 2022 the TM CRUX UK Special Situations Fund returned -10.5% versus its performance comparator, IA UK All Companies return of -5.1%.* During the period a variety of factors contributed to a difficult economic and market backdrop. Central Bank intervention and the war in the Ukraine has led to rising interest rates and commodity prices, with resulting pressures on consumer demand, an inflationary environment and deteriorating sterling. Falling markets favoured defensive positioning, and currency weakness which helped international businesses over domestic ones. This was unhelpful for the funds structural bias towards mid and small sized companies. Performance this quarter was driven by sector biases caused by the macro environment rather than stock specific news.

*Source: FE 30.06.22-30.09.22 Bid-Bid in GBP, TR, net income re-invested.

Main contributors to the funds underperformance including One Savings Bank (OSB) and Vistry. OSB is a buy-to-let mortgage bank and although house prices will likely weaken into next year, we believe it should benefit, at least partially, from a firmer rental market. Housebuilder, Vistry has a strong public sector exposure and substantial private residential order book which we believe should partially mitigate anticipated weakness in housing markets in 2023.

Small-cap FD Technologies share price fell by 27% and now is at lower levels than when the transformative deal with Microsoft was signed earlier this year. Although there has been weakness amid similar US software stocks, FD Technologies had not participated in the “NASDAQ run” of the previous two years and is now incredibly undervalued. Eyewear company, Inspects was a significant faller during the quarter. Trading was about 10% weaker due to currency movements and a slow start to the Company’s lens manufacturing operation. We believe the share price fall of over 40% was somewhat of an over-reaction, and that the fundamentals of the company remain strong. We also saw a profit warning for Glantus Holdings which the fund has a small position in.

Important Information

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WANdisco was a standout performer with a return of 66% over the period. The business announced funding from the US, and twice confirmed new record orders. WANdisco is benefitting from the need to store huge quantities of data from wind farms, electric vehicles and smart meters. The Company clearly has improving commercial traction with Telecom Companies and Tier 1 automotive suppliers. This quarter saw a bid for Diurnal from Californian based biotech firm Neurocrine Biosciences which lead to the share price jumping.

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Attribution Stock Level Q2 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
MaxCyte +0.73	Vistry -0.93
WANdisco +0.70	Inspects -0.83
Glencore +0.60	FD Technologies -0.69
Kistos +0.55	Premier Foods -0.58
Shell +0.31	Hill & Smith -0.58

Source: Bloomberg

Transactions

During the quarter we added back Whitbread and Melrose to the portfolio, having sold AB Foods to fund Whitbread. Both of these companies were bought at similar entry levels in 2020 and were drivers of performance in the cyclical rebound that occurred.

Whitbread has a strong balance sheet and asset backing and continues to see some recovery from depressed levels of Covid trading. Their German operation may be weaker given in country problems, but the London market should see strengthening as a weak Pound and the coronation drive tourist footfall, and work patterns recover.

Melrose's share price has been impacted by prospects of a global economic recession. The announcement of a separation of the automotive and aerospace divisions should help management to realise the upside we believe exists in the shares. We also initiated a new position in Watches of Switzerland and added to our position in Barclays. We closed our positions in small caps, MP Evans and Rank Group.

Outlook

Headlines for the UK economy remain negative and have been for some time. Paradoxically although the temptation is to sell any asset listed on the UK stock market, there are three specific reasons why this is not the case. Firstly, the majority of revenues on the UK stock market are earned overseas, thus the weakness in sterling will lead to stronger profits for these companies in sterling terms. Secondly, many of the UK

Market Cap

	Fund
>£5bn	32.3%
£500m - £5bn	35.7%
<£500m	29.0%

Source: CRUX Asset Management as at 30.09.22

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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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earners in impacted sectors have already declined by 50% or more. Whilst next year will see deteriorations in underlying profit, we believe many of these businesses are now valued too low for their long-term earning power. Thirdly, notwithstanding general economic headwinds, a focussed special situations fund will always be able to find the companies that are overly discounted or can outperform in difficult market conditions. In 2020, distressed market conditions brought about the low prices that facilitated the fund's subsequent significant outperformance from larger cyclical businesses and disruptive small and mid-cap companies. We believe current depressed conditions offer a strong opportunity to buy well-run sensibly financed businesses for the long term.

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