

Fund Manager: Richard Penny

TM CRUX UK Special Situations Fund

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Fund Performance

During 2022, Global financial markets have faced a backdrop of rising interest rates to combat global inflationary pressures. Rising rates have dual negative influences on share prices. Rising rates demand lower valuations for all types of financial instruments, and reduce consumer demand and investment, reducing earnings prospects for equity investments.

There were two further unknowable black swan effects that had negative effects on inflation and economic circumstances. The War in the Ukraine and the decrease in the supply of gas, oil and diesel, caused an additional supply shock for the Global Economy. In the UK an expansionary budget under the administration of Liz Truss was short lived and met by a UK currency and budgetary crisis.

In Q4 while the backdrop remains for rising inflation and interest rates there was some incrementally positive news and Global stock markets recovered some lost ground.

In Western Europe mild winter weather and reduced demand for gas has seen big reductions in coal and gas prices. In Asia, progress on reopening following COVID lockdowns is positive for global economic growth and is restorative for global supply chains. Both these factors reduce inflationary pressures and should mean less acute rises in interest rates will be needed.

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*Source: FE 30.09.22-31.12.22 Bid-Bid in GBP, TR, net income re-invested.

The Fund was well positioned for rising markets, with its bias towards and mid and smaller companies and lesser ownership of defensive businesses. Cyclical companies JD Sports, Melrose, and Hill & Smith benefitted from gains of 27%, 33%, and

Important Information

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32%. Generally trading was reassuring at these companies but they benefitted from a recovery in cyclical company share prices.

One of our larger holdings Prudential, the Southeast Asian insurer benefited from the reduced COVID restrictions between Hong Kong and China, which was greeted by a 30% share price rise. Inchcape, the motor distributor, with Hong Kong and Singapore operations saw a 21% increase also on the back of reduced COVID restrictions.

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Our small companies saw mixed news which was on balance neutral to performance. WANdisco, a data handling software company, continued to win big contracts and has grown its purchase commitment by a factor of ten during 2022. The shares gained 89% over the period under review. This larger position offset difficulties at smaller positions Inspects which fell 68% on trading difficulties in Germany and MJ Hudson, -77%, where the company warned on profits and has some cash shortfalls.

Attribution Stock Level Q4 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
WANdisco +1.95	Inspects -0.911
Prudential +1.36	MJ Hudson -0.72
Inchcape +0.98	MaxCyte -0.49
JD Sports +0.93	Ondine -0.28
Glencore +0.88	HeiQ -0.25

Source: Bloomberg

Transactions

During the quarter we sold our position in housebuilder Bellway. Whilst the shares are cheap in the long term, the chaos in the UK mortgage market is, we believe, incrementally negative for the UK housing market. We invested the proceeds in cyclical positions Melrose, Whitbread and JD Sports.

Outlook

Much financial commentary talks of the “R” word and implies that if a recession occurs then these will be terminal conditions for investing in equities for the immediate future. This need not be the case. Financial prices already expects a recession in Western Europe and to a lesser extent in North America. As we have seen in Q4 2022 any slight improvement in economic outlook can lead to significant increases in global share prices.

In addition, short-term over reactions to negative news can leave share prices very

Market Cap

	Fund
>£5bn	34.0%
£500m - £5bn	33.2%
<£500m	29.4%

Source: CRUX Asset Management as at 31.12.22

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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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attractive for investors that are prepared to “look through” bad news and anticipate an eventual recovery in trading conditions.

As a Special Situations Fund we are most excited about the stock picking opportunities that broad market sell offs bring about in specific instances. Inevitably concerted sell offs can lead to some bargain purchases that bake in performance for several years to come. There are always more of these opportunities in the small companies where there are many more companies, which are more mis priced. The Fund is more biased towards these small and micro-cap companies than other competing UK funds

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