Quarterly Commentary

Q1 2022

CRUX ASSET MANAGEMENT

Fund Manager: Richard Penny

TM CRUX UK Special Situations Fund

> "Our investment style is Growth at a Reasonable Price and this has led to us "missing out" on some of the expensive large consensus growth stocks but fairing better than some other growth investors under recent conditions."

Fund Performance

During Q1 2022 the TM CRUX UK Special Situations Fund returned -3.7% versus -4.8% for its performance comparator, the IA UK All Companies sector.* At the turn of the year the continuing prospect of rising interest rates drove sector performance, on the one hand improving the prospects for banks and insurance, on the other, impacting the outlook for growth stocks leading to a switch to value sectors, including tobacco and telecoms. A large proportion of UK stock picking funds, us included, are underweight value stocks leading to underperformance especially when combined with the underweight positions in mining, banks, oil and gas.

*Source: FE 31.12.21-31.03.22 Bid-Bid in GBP, TR, net income re-invested.

For over a decade growth investing has significantly outperformed value investing at a time when interest rates fell to artificially low rates. The stock performance of growth businesses during this period has been exceptional particularly in the US, but it is also true that investors have paid progressively higher prices for the favoured companies. With interest rates now rising, the prices paid for growth assets may now prove untenable, with investors having locked in low rates of return for long periods.

The preponderance of trend chasing thematic funds and a greater participation of less sophisticated retail investors, at a time when growth funds attracted ever more capital, and bought more of the same stocks, may have served to fuel a momentum trade that must now partially unravel under rising interest rates.

Growth and business franchise will continue to be essential investment factors but rising interest rates must mean that price becomes a more critical factor. Our investment style is Growth at a Reasonable Price and this has led to us "missing out" on some of the expensive large consensus growth stocks but fairing better than some other growth investors under recent conditions.

The other major investment factor during the period was the Russian invasion of the Ukraine. As well as a humanitarian crisis, this has exacerbated increases in commodity prices such as coal, crude oil and natural gas where Europe is heavily dependent on Russian supply. The extent of these commodity increases and their effect on food utility and motoring costs in tandem with rising interest rates will lead to significant pressure on the UK consumer outlook.

The combined effect of rising rates and commodity prices have been positive for oil and gas, mining, defensive and banks shares. Share prices of the more cyclical sectors such as industrials, retail and housing have been heavily hit. These sector biases were significantly more favourable for large cap investing than small/mid cap investing.

“Top contributors to the fund over this period included Glencore, Rio Tinto and Shell driven by rising commodity prices.”

Attribution Stock Level Q1 2022

Top 5 Contributors	Bottom 5 Contributors
Glencore +1.03	Bellway -0.84
Shell +1.02	Halfords -0.71
Rio Tinto +0.82	AB Foods -0.68
Aviva +0.44	Vistry Group -0.66
MP Evans Group +0.39	Grafton Group -0.63

Source: Stat Pro

Much of the stock specific performance was driven by economic factors. Top contributors to the Fund over this period included Glencore, Rio Tinto and Shell driven by rising commodity prices. Aviva announced a capital return following the sale of its overseas subsidiaries. Detractors came from housing related Grafton Group, Bellway and Vistry, and retailers AB Foods and Halfords.

Within our small-cap portion of the portfolio, tech and healthcare companies were worst hit, as they mirrored the the sell-off in NASDAQ. Such companies were significant performers for the Fund from Q2 2020 to Q3 2021. We had sold or reduced many of these holdings following the strong rally which mitigated the Funds exposure to the sell-off. Gene therapy company MaxCyte fell 27%, with the business now listed on the US NASDAQ market this was perhaps unavoidable. We have had good meetings with the business recently and think the risk profile is increasingly attractive. University technology developer IP Group fell 25% and Database software developer FD Technology declined 25%, intra quartile but recovered to only 5% down following a “game changing” deal with Microsoft Azure.

Market Cap

	Fund
>£5bn	27.3%
£500m - £5bn	44.6%
<£500m	24.6%

Source: CRUX Asset Management as at 31.03.22

Transactions

In mid-January we sold positions in Melrose and Astra Zeneca to fund increases to our holding in Shell and initiated a position in Glencore. During February we added significantly to the position in FD Technology and sold holdings in Microlise, Big Technologies, Revolution Beauty Group and Essensys.

Although there are considerable headwinds for the UK consumer, there have already been significant share price falls amongst retail shares and we believe there are some offsetting positive factors. The unlock from COVID-19 lockdown, the build up of savings over the last two years and rises in minimum wages and fuel subsidies may mean the final outcome is not so bad as feared. The housing market continues to be strong in price and volume and the housing improvement market remains buoyant as people spend more time at home. During the quarter we bought a 2% position in sports good retailer JD Sports, which has a 40% exposure to the UK. We believe the company is one of the best shares of the last 20 years, and with the price fallen from 330p to 230p saw an attractive entry point.

“ Although there are considerable headwinds for the UK consumer, there have already been significant share price falls amongst retail shares and we believe there are some offsetting positive factors. ”

Outlook

The coincidence of a weak small cap market, institutional selling and a sell-off in growth stocks, will we believe provide excellent opportunities to buy growth companies at attractive prices which offer asymmetric risk profiles. This strategy worked very well in Q2 2020 after the market sell-off and we have similar experience of contrarian tech buying in 1999, 2003, and 2008.

clientservices@cruxam.com | 020 7499 4454 | www.cruxam.com