Quarterly Commentary
Q2 2022

CRUX
ASSET MANAGEMENT

Fund Manager: Richard Penny

TM CRUX UK Special Situations Fund

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Fund Performance

During Q2 2022 the TM CRUX UK Special Situations Fund returned -10.0% versus -7.1% for its performance comparator, the IA UK All Companies sector.* During the quarter global stock markets continued to reflect increasing risks of a recession with sector and market capitalisation bands reflecting this. The positioning of the fund; overweight mid and small caps and underweight defensives largely explains the underperformance of the fund during the quarter.

*Source: FE 31.03.22-30.06.22 Bid-Bid in GBP, TR, net income re-invested.

Rising interest rates are typically good for banks profitability, with the banking sector (where the fund is underweight) having a strong quarter. There were positives from the fund's holding in Standard Chartered which increased 20.5%.

Trading news from our companies was in line with what we would expect, with a mix of good and bad news. There are signs that some of the selling in small and mid-cap is more of a reflection of distress and redemptions coming from both institutions and private individuals.

Although the 2022 headline fall in the UK stock market is low compared to other global markets, especially the US, UK domestic sectors have seen severe price falls and already reflect much of the bad news. When we look at the cyclical sectors in the UK, for prices to fall further from here it feels like we would need economic conditions similar or worse to those in 2008 or 2020, which we feel is unlikely.

The fund underperformed due to poor performance from cyclical stocks. Halfords have seen a slowdown in trading as petrol prices impacted consumers. Forecasts for 2023 and 2024 have deteriorated 25-30%. The shares declined 43% in Q2 having already declined 24% in the first quarter of this year.

Other cyclicals such as JD Sports, Inchcape, and Bellway had trading updates that were at least in line with profit forecasts at the start of 2022 but have seen significant share price falls year to date as they have been indiscriminately hit by the market. JD Sports has seen a decline from c250p to a low of 105p at a period when profit forecasts have increased. Whilst we think there will be an inevitable slow down in trading later this year, with a strong balance sheet and a good split between Europe, UK and the US we took this opportunity to initiate a new position, seeing this downturn as a good chance to buy a long term winner.

The fund exposure to oil, gas and mining is in line with the UK market. Holdings Shell and Glencore out-performed during the quarter but were weaker in June as recessionary pressures impacted commodities markets globally.

We saw bids for two companies during the quarter: Euromoney and M&C Saatchi. After a period with little bid activity due to COVID-19 we are encouraged by the bid activity and believe there should be an increase in activity across the UK market in the coming months. The UK market has already seen 10 approaches for mid-tier UK firms (out of 250) and with a weak UK currency we will likely see more from both trade buyers and private equity.

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The small cap market has fallen disproportionately this year reflecting a greater exposure to economic headwinds. Sometimes the falls can be indiscriminate and for a patient investor this can be the best buying point of the economic cycle. Performance was also held back by XP Factory, a small bar operator, which is trading well and has expanded its outlets this year. The shares halved over the quarter which we believe does not reflect the material increases in numbers of outlets, trading and advantageous property deals. Inspecs, a global eyewear manufacturer, saw a decline of 27% despite trading in-line. The shares retrenched from a high of 405p in January to 250p at the end of June.

Market Cap

	Fund
>£5bn	30.1%
£500m - £5bn	37.5%
<£500m	30.5%

Source: CRUX Asset Management as at 30.06.22

Attribution Stock Level Q2 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Euromoney +0.58	Halfords -0.77
Standard Chartered +0.38	XP Factory -0.77
FD Technology +0.33	JD Sports -0.65
Man Group +0.18	Grafton Group -0.59
Chemring +0.14	Inspecs -0.57

Source: Stat Pro

Transactions

During the quarter we started two new holdings in small-caps HeiQ and Wandisco. HeiQ is a materials IP licencing business that is well developed and financed and has a Polyethylene replacement made from cellulose and has received backing from Hugo Boss and Lycra. The shares have made commercial progress since trading at a high point of 240p earlier in the year but have fallen with the market and are now trading below 100p.We took this price opportunity to start a position.

Wandisco, a software company, has derisked substantially in the last quarter and is seeing unprecedented new business wins and has recently refinanced. Wandisco helps international companies manage “big data” problems and save money. Recent wins have included global Telecom and Automotive companies.

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Outlook

The UK is a lowly priced market that had suffered from being a value market at a time of growth investing over the last 5-6 years. The current global rises in interest rates are positive for value investing at the expense of growth investing. Whilst there are strong headwinds for the domestic economy, only one third of UK stock market revenues are derived from the UK. Furthermore we think there is a lot of bad news already in the price of domestic sectors stocks, and for specific cases this presents a strong buying opportunity.

On balance we are disappointed that the fund value has retreated this quarter but excited about the value that is on offer, in a market showing signs of distress.