The CRUX of it.

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CRUX ASSET MANAGEMENT

Contributors: Karen Zachary, Richard Penny, Ewan Markson-Brown & James Milne

US Investment firm Stephens takes stake in CRUX

by Karen Zachary

Stephens, one of the largest, privately-held financial services firms in the U.S., will, through a wholly owned subsidiary entity take a minority ownership stake in CRUX, subject to FCA approval. The proposed transaction will result in Stephens holding approximately 20% of CRUX share capital and new Ordinary shares will be issued to support the deal. John Stephens, who is currently a Senior Vice President with Stephens' affiliate Stephens Inc, will join the CRUX board as a Non-Executive Director once FCA approval of the transaction has been obtained.

This is a very exciting strategic step for CRUX and we are delighted to be partnering with a firm of such a high calibre as Stephens and see clear synergies between our two firms. Over the last five years, we have built a scalable platform at CRUX that has enabled us to expand our investment offering into Asia and the UK with complementary strategies that fit our plans to build a diversified range of active management strategies.

TM CRUX UK Special Situations Fund/ TM CRUX UK Core Fund

by Richard Penny

Although the TM CRUX UK Special Situations Fund is a bottom-up, predominately mid and small cap stock picking fund, the first four months of 2022 had a macro orientation. This is the result of rising interest rates, commodity price inflation and growing headwinds to consumer spending. Going into 2022, most investors were positive on ESG strategies and consequently reduced energy and mining sector exposure. Many portfolios were also underweight banks, telecoms and tobacco. Many mid and small cap funds have done poorly, but we have been helped by the fact that in the TM CRUX UK Special Situations Fund by comparison we had more exposure to energy and mining, with comparatively less to engineering, paper and packaging, and chemicals. Our active stock picking, which included holdings in Standard Chartered, British American Tobacco and One Savings Bank, has also positively contributed to performance.

The TM CRUX UK Core Fund and TM CRUX UK Special Situations Fund have both benefited from their position in Shell. In the TM CRUX UK Core Fund, we shifted the holding from BP into Shell. There was additional positive news with Schroder's non-voting shares becoming enfranchised which brought positive performance attribution in April for the TM CRUX UK Core Fund.

FD Technologies

This specialist IT services firm formerly known as First Derivatives owns KX Systems, a tech business in Silicon Valley, which offers real-time intelligence, deployable for edge, cloud and on-premise use cases. The stock fell on the extra investment in KX's database software but has now recovered by some 50%. We believe this is a fundamentally profitable business that will gain revenue from the roll out of smart meters and the internet of things where data needs to be gathered quickly. The modest valuation to sales attributed to KX has room to grow given the stratospheric valuations of US peers like Snowflake and Confluent. FD Technologies is held in both funds.

Bellway; Vistry Group

Within the TM CRUX UK Special Situations Fund we own both home builders on valuation grounds. Bellway is trading at around a 30% discount to book value of £32 per share on the perception that interest rates going up is going to be deeply negative for the shares even though housing market data remains generally healthy. Although rate rises are negative, the bigger factor that would be more likely to drive a house prices decline, would be unemployment which is still falling. Vistry, meanwhile, trades at a similar discount to book, is yielding over 7% with a PER of 6.

JD Sports

Both strategies added the sports retailer. Macro trends for UK consumers may be weak, but given that JD Sports has over half (55%) its sales in the US and Europe with a proven track record and

management team, we think the continuing share price weakness leaves the shares very attractively valued. This is about buying a quality growth business in a difficult marketplace.

NP Evans

This palm oil producer in Indonesia has a conservative management which has a material stake in the business. In recent years, the plantation has absorbed substantial investment, but that is now coming to an end. As the plantation ages, production volumes will rise over time, helping the company grow profits. Recent strong increases in the price of palm oil are also positive as is the increasing substitution of palm oil in various food types, including ice creams and biscuits. We hold in the TM CRUX UK Special Situations Fund.

M.P.Evans GROUP PLC

Inchcape

We initiated a position in Inchcape in both funds at the start of January. Inchcape is a global motor vehicle distributor which has produced good figures showing higher margins per car despite challenges on volumes due to the vehicles shortage. Inchcape is also making creative acquisitions in vehicle distribution in lucrative smaller markets around Europe, Asia, the Caribbean and South America. This strengthened business model should drive long-term shareholder returns.

Outlook

Our slightly contrarian approach to technology has worked in 2022. When there is a sell-off in growth and weakness in small companies' share prices, there can be some really interesting opportunities at a special situations level. It is important to note that the TM CRUX UK Special Situation Fund strategy it is not just buying companies that are showing improving performance. Sometimes the situation is special because the price provides an opportunity to buy growth stocks at cheap valuations during a sell-off. We did this in Q2 2020 and also applied this approach to good effect in 1999, 2003 and 2008. In our view, the very best stocks are the long term growth stocks that become really cheap in difficult markets. We expect that ongoing volatility in markets will provide a platform for opportunistic stock picking.

CRUX Asia ex-Japan Fund

by Ewan Markson-Brown

During the January to April period, markets were weaker due to the lockdowns and suspension of economic activity arising from China's 'zero Covid' policy. This led to a sharp sell-off in domestic stocks amid evidence that China's economic recovery would be delayed. Further destabilization came from interest rate hikes in G7 economies and elsewhere, and the Russian invasion of Ukraine, which served to inflate commodities prices which had knock on effects in other sectors.

Electric vehicle (EV) producers and renewables issues were generally weak mainly due to rising input costs, which has temporarily hurt profit margins. Nevertheless, we still believe in both the long-term growth story and China's dominance in the sector. Today, stocks are some 30% cheaper and even more in some cases. The geopolitical backdrop related to Russia has meant that our continued exposure to commodities, including copper, nickel and lithium producers, has been positive for the portfolio. Our long-term backing comes from our belief that both the prices and production volumes of these metals needs to increase dramatically to drive the transition to electric vehicles. How we electrify the world is going to be one of the big stories of the coming decade.

Currently, Indonesia is our largest single overweight in the portfolio. It was a strong contributor to the portfolio over the first quarter of 2022. There are several reasons why we expect continued gains. First, the government is pursuing structural reforms to attract foreign direct investment. Secondly, reforming state owned enterprises to drive productivity. Thirdly, rising commodity prices are helping the balance of trade as Indonesia is a net exporter of coal, nickel and copper. But what is getting us really excited is the increasing localization of the battery manufacturing chain with Indonesian companies increasingly going upstream.

Today this means increasing production of higher end battery metals, although this could lead to actual battery manufacturing over the next few years.

Bank Negara

We bought Bank Negara, which is a top four bank in Indonesia. The Indonesian government, which owns a 60% stake, is actively seeking to improve return on equity in the state controlled banking sector. In addition to this impetus, the bank has highly experienced new management team. New growth targets, including a doubling of loans, should provide double digit earnings growth.

Telekom Indonesia

Another stock we bought is Telekom Indonesia, which we regard as a nascent enterprise play on the digitalisation of SMEs and consumers. This is a higher margin, higher return business than the legacy telecom operation. As Indonesian businesses expand their digital services offering, we expect the firm to become a growth company and enjoy a rerating. It sits in our Renewables and Regeneration bucket and is now starting to outperform.

Hybe

Following weakness in the share price, we added to our already significant position in Hybe. The company has a growing fan community platform in Weverse, specialising in hosting multimedia content and artist-to-fan communications for musicians, and it is teaming up with the operator of the country's largest cryptocurrency exchange to launch an NFT-related business. We continue to back Hybe with its earnings growth driven by increasing online interaction as Web3 and the metaverse develop.

Jiumaojiu

We have bought into this Chinese restaurant chain to get exposure to expanding consumer discretionary spending. It has a high quality management team and is renowned for its high quality sauerkraut fish, a national delicacy. The firm is using tech to scale efficiently and maintain product quality. With valuations having come down, we bought at an attractive entry price.

YADEA

Share price weakness led us to add to our position in YADAE, China's leading electric scooter manufacturer. We believe electric scooters will grow massively in China both in replacing gasoline models as well as providing an alternative to public transport. We expect the firm's market share to double (from 20-25% to 40-50%) over the next five years as it moves up market with better batteries and a superior brand proposition.

Outlook

We expect Chinese growth to recommence in the second-half of 2022 as regulatory restrictions ease. Valuations are attractive versus those in the US and there is incremental earnings growth in all sectors. In sum, Asian markets have priced in a downturn, but Western markets haven't.

The current environment is characterised by severe near-term uncertainty driven by the imposition of uneconomic incentive structures. We continue to focus bottom-up on specific companies, earnings quality and long-term growth themes. By sticking to our philosophy and process, we are positioned in sectors that will benefit strongly when the economy improves.

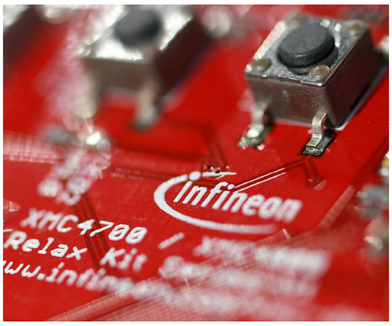
TM CRUX European Special Situations Fund/ TM CRUX European Fund

by James Milne

The first quarter of the year was once again driven by macro-economic factors with concerns over rampant inflation and the US Federal Reserve raising interest rates sooner than anticipated as well as selling down their bond holdings. Furthermore, the Ukraine conflict increased volatility and market jitters. We remain wary of companies with high valuations and rarely, if ever, buy companies in unprofitable sectors instead focusing on reasonably priced stocks which are self-funding.

Infineon Technologies

In the TM CRUX European Special Situations Fund, we bought German semiconductor manufacturer Infineon Technologies AG, which is well run by an established management team. The stock price had fallen significantly and seems to be overly discounting an economic downturn leaving the business trading on an attractive mid-teens earnings multiple with a fairly strong balance sheet. Infineon designs and makes microchips which are used in a multitude of applications, with high secular growth characteristics, such as automotive (both for electrification of cars but also autonomous driving) and in general industry where it helps optimise power management. It commands high market shares in its niches.



Spie

The TM CRUX European Special Situations exited its position in Spie, an independent European leader in multi-technical services in the areas of electrical, heating, energy and communications. The share price had more than recovered to above its 2019 high and given some significant sell-offs in other companies we saw more upside in other stocks, especially those with stronger organic growth prospects.

Allfunds

We started a position in Allfunds after it had more than halved in the recent sell-off, leaving it trading on an attractive high-teens earnings multiple with little debt. It is one of the largest fund distribution platforms where private banks can easily access a vast range of mutual funds and ETFs. It usually enjoys high growth as it wins market share, sees inflows from existing clients and on-boards new clients who are outsourcing for the first time. The founder-CEO is impressive and is highly incentivised by the share price.

Novo Nordisk

A strong performer in both funds has been Novo Nordisk, a leading global healthcare company, headquartered in Denmark. It makes insulin pens to combat diabetes, and has recently launched a range of obesity drugs which help people lose weight and keep it under control; this should stop the onset of diabetes and other related illnesses such as kidney diseases. The company has been reporting stellar growth across most business segments and all regions. We believe this is set to continue as they ramp up sales of their obesity drugs.

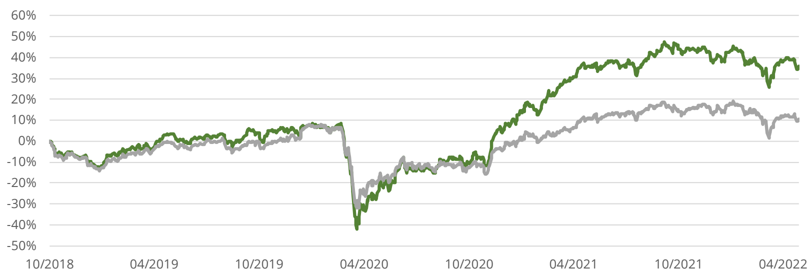
Outlook

Both funds hold a good mix of companies with resilient growth in spite of the current cycle and trade on attractive valuations. Most of these are businesses that make small but critical components for the end customer and tend to have good pricing power without too many inflationary inputs.

With US inflation at a 40-year high, the US Federal Reserve announced its biggest interest rates rise in more than two decades to contain spiking costs felt across all households. The Bank of England has also been raising rates.

Despite the geopolitical tensions surrounding the ongoing Ukraine conflict, we remain cautiously optimistic about the outlook. Energy prices should stabilise and inflation should start to ease off in the second half of the year. Valuations have come down which should drive more accretive acquisitions by our portfolio holdings which will supplement earnings growth.

TM CRUX UK Special Situations Fund - Percentage Growth, since launch (1 October 2018) to 30 April 2022†



★ TM CRUX UK Special Situations Fund I Acc (35.6%)

■ IA UK All Companies (10.6%)

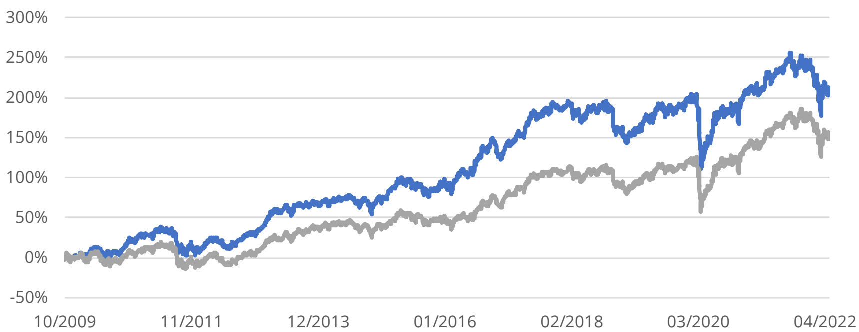
†Note: These figures refer to the past and past performance is not a reliable indicator of future results.

Source: as at 30.04.2022. © 2022 FE Fundinfo. All Rights Reserved. Total retrn, Bid-bid in GBP, net income reinvested.

Discrete Year Performance (%)	YTD	2021	2020	2019	2018	2017	Since launch
TM CRUX UK Special Situations Fund I Acc	-5.3%	26.0%	5.7%	21.7%	n/a	n/a	35.6%
IA UK All Companies	-6.0%	17.2%	-6.0%	22.2%	-11.2%	14.0%	10.6%

Source: as at 30.04.2022. © 2022 FE Fundinfo. All Rights Reserved. Total return, Bid-bid in GBP, net income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

TM CRUX European Special Situations Fund - Percentage Growth, since launch (01 October 2009) to 30 April 2022†



★ TM CESSF I Acc GBP (208.0%)

■ IA Europe ex UK (150.6%)

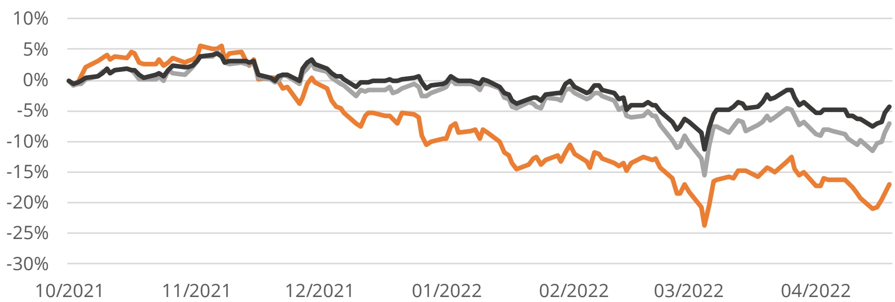
†Note: These figures refer to the past and past performance is not a reliable indicator of future results.

Source: as at 30.04.2022. © 2021 FE. All Rights Reserved. Bid-bid in GBP, net income

Discrete Year Performance (%)	YTD	2021	2020	2019	2018	2017	Since launch
CESSF I Acc GBP	-11.1%	12.4%	4.0%	21.0%	-15.2%	20.9%	208.0%
IA Europe ex UK	-10.2%	15.8%	10.3%	20.3%	-12.2%	17.3%	150.6%

Source: as at 30.04.2022..© 2021 FE Fundinfo. All Rights Reserved. Total return, Bid-bid in GBP, net income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

CRUX Asia ex-Japan Fund - Percentage Growth, since launch (11 October 2009) to 30 April 2022†



★ CAexJ B Acc GBP (17.0%)

■ MSCI Asia ex-Japan Sector (-7.1%)

■ IA Asia Pacific Excluding Japan Sector (-4.2%)

†Note: These figures refer to the past and past performance is not a reliable indicator of future results.

Source: as at 30.04.2022. © 2021 FE. All Rights Reserved. Bid-bid in GBP, net income

Disc Yr Perf (%)	**YTD**	**2021**	**2020**	**2019**	**2018**	**2017**	**Since Launch**
CAexJ B Acc GBP	-12.3%	n/a	n/a	n/a	n/a	n/a	-17.0%
MSCI Asia ex-Japan Sector	-5.9%	-3.8%	21.2%	13.6%	-9.1%	29.5%	-7.1%
IA Asia Pacific Excluding Japan Sector	-4.4%	1.5%	20.0%	15.8%	-9.8%	25.3%	-4.2%

Source: as at 30.04.2022..© 2021 FE Fundinfo. All Rights Reserved. Total return, Bid-bid in GBP, net income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

CRUX ASSET MANAGEMENT

Our team

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Head of Marketing

Recent awards

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Best Fund Manager: Richard Penny (shortlisted)

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Best performer among young funds in the IA UK All Companies sector :TM CRUX UK Special Situations Fund

FT ADVISER
2022
Fund Selector's top UK equity funds: TM CRUX UK Special Situations Fund

INVESTMENT WEEK
2022
Fund Selector's top UK equity funds: TM CRUX UK Special Situations (shortlisted)