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

CRUX Asia ex-Japan Fund

by Ewan Markson-Brown

The Asian market remained highly volatile during the four months to July 31, with macro-concerns over-riding most stock-specific news. During such market phases significant stock movements are often caused by fund flows rather than changes in fundamentals.

From our perspective, it's hard to see why this environment should materially change until there is a shift in Fed policy or signals indicating the timing of a switch. Our current focus is to manage this volatility, while still maintaining the exposure to the longer-term themes and opportunities we have identified.

What's crucial to remember is that we expect the long-term trends previously identified to continue to drive value growth and outlive short term volatility. The electrification of everything, especially vehicles, and the digitisation of everything, especially businesses, continues unabated. Indeed, humanity's ability to survive, innovate and thrive endures.

Over the period we increased our exposure to Chinese consumer discretionary names and, as a result, have shifted our country weight in China from slightly underweight at the start of the period to overweight by the end of the period. We would highlight the follow new stock buys we have made.

Baidu

The company once dominated the China internet in search and advertising but lost out to Alibaba and Tencent, both of which created their own walled eco-systems. Over the last five years Baidu has invested heavily in artificial intelligence (AI) with a focus on autonomous driving and Transportation-as-a-Service. We think the market is ignoring the long-term opportunity for these businesses. Moreover, we also believe there is potential to see the internet in China pivot away from the closed platforms to open platform structures which would favour search engine technologies like the one Baidu operates.

Niu Technologies

A Chinese electric two-wheeler (2W) manufacturer, Niu's brand positioning is in the premium segment with a particular focus on attracting younger, fashion-conscious consumers looking for smart feature rich 2Ws. This complements our existing exposure to the electric 2W market in China with Yadea. Both are exposed to the same secular drivers such as replacement of internal combustion engines (ICE) 2-wheelers with electric 2W, rising demand from delivery/logistics riders, and demand for affordable individual transportation solutions.

PinDuoDuo

PDD is China's largest community group buying ecommerce platform. Recent results beat consensus expectations and marked the fourth consecutive quarter of profitability. Its value-for-money proposition has clear appeal with an annual active user base now over 880m. We expect revenues will grow at close to +20% compound annual growth rate for the next 3-5 years. Thanks to industry consolidation subsidy spending should remain in check, resulting in further margin improvement. With a 10% free cash flow yield forecast for fiscal 2024, there is also ample opportunity for a re-rating.

Meanwhile, Indonesia remains an overweight in the portfolio. We hold consumer, commodity and bank stocks. We expect these sectors to benefit from the government pursuing structural reforms to attract foreign direct investment to drive productivity gains among state-owned enterprises. Rising commodity prices are also helping the balance of trade as Indonesia is a net exporter of coal, nickel and copper. Finally, there is increasing localisation of the battery manufacturing chain with Indonesian companies increasingly going upstream which could see production of higher end battery metals today lead to actual battery manufacturing in a few years. Among our plays are Bank Negara and Telecom Indonesia.

Samsung Electronics

A slowdown is replacing the long up cycle in tech hardware. This led us to reduce Samsung as well as some small cap tech stocks in Taiwan and Korea. We are using the sale proceeds to free up cash for reinvestment.

Outlook

We are facing potentially the most difficult and confusing macro, geo-political and populist-social environment any of us have ever had to deal with. This complex market environment is throwing up multiple different historical crises rolled into one.

We have the irrational exuberance and overvaluation signalled just before the dot.com crash in the early 2000s; areas of financial crisis, especially in Europe, similar to (albeit smaller) than the 2008 crisis; and lastly, we have something few of us have experienced, the inflationary energy crisis redolent of the 1970s. Western policy makers have reacted with, and adopted populist measures, tinged with authoritarian hues, which, inflationary in nature, will only prolong the crisis. Meanwhile, Cold War geo-political tensions have arisen with Russia and, to a lesser extent, concerns with China's role in the world.

Yet, looking beyond the noise, we are at the beginning of an energy transition from fossil fuels and discrete energy generation to electric power. The story to drive future returns is built around the electric vehicle and China's dominance in renewable energy.

Book recommendation

The Beginning of Infinity by David Deutsch, a leading physicist. The book outlines why growth is inevitable at a macro level, and how humans are infinitely part of that, while considering how infinity plays out though the development of consciousness and freedom.

TM CRUX UK Special Situations Fund

by Richard Penny

The four months to July 2022 were marked by rising inflation prints and interest rate hikes. This emerging economic backdrop resulted in a global equities sell-off, particularly in the US. In comparison the UK stock market fell less, making for a period of relative outperformance.

Although a market downturn is likely, the prospect of a recession shouldn't automatically trigger across the board sales of all cyclical stocks. There is ample evidence that private investors lose much of the attractive long-term return of equities by trying to time markets and often end up selling at depressed prices.We would point out that some of the UK's most cyclical sectors, including General Retail and House Builders are already down significantly. However, other cyclical sectors, notably Mining and General Financial, are increasing earnings forecasts and seeing rising share prices.

Valuing shares is always difficult but doing so after COVID-19 depressed earnings, is especially problematic. On a 10 year view, cyclically adjusted price earnings or CAPE, suggests that the UK is cheap and capable of close to annualised double digit percentage returns for the next decadet

It is our view that most of the bad news is already priced in and with cash at record levels since 2008, the UK market looks attractive.

Each economic downturn is usually different from the previous one. However, the way that investors behave is often very similar, buying larger stocks and businesses with any sort of debt cyclicality. In turn, this creates some big opportunities among smaller company names as well as some larger players that offer good entry points.

JD Sports Fashion

We have added to our position as the share price continues to be battered. Delayed final results published in late June showed that against the previous year's business performance, JD Sports' revenue increased by 40%, profits doubled and the number of stores across the group increased by over 25%.

Watches of Switzerland

The premier watch retailer continues to notch up strong revenue and net income growth. There may well be some headwinds to this business but the positive trading update in July shows that they are not yet apparent. This is another play we are happy to back over the cycle given its long-term, high-quality characteristics.

Bellway

Bellway, the house builder and a strong performer for 30 years, has a significant land bank. The stock's decline since 2020 means it trades well below net asset value and has an upside of perhaps 90%. The stock trades on price/earnings ratio of about 6x current year earnings with a dividend yield forecast at 5.9%. Interest rate rises are a negative but the strong UK jobs market may more than offset this. We also believe slower house price appreciation is already reflected in the share price.

Glencore

We retain our position in this leading commodity trading, processing and mining company. The share price rallied in July and August but still leaves the company trading at a single digit earnings multiple, while it continues to pay one of the biggest dividends in the FTSE 100.

GLENCORE

Standard Chartered

Another area of big cap diversification for the fund is Standard Chartered. Rising interest rates are good for banks and in Asia where the bank operates growth is expected to rebound over coming quarters.

Portfolio sales

We sold our position in Man Group, banking gains after a pro-longed period of strong performance.

Outlook

A recent Bank of America fund manager's survey found UK fund managers as negatively positioned as they had been for 20 years. This could means that it could be difficult for sentiment to get much more negative.

Clearly, investor redemptions are affecting stocks. This is particularly so with price action in the small and mid-cap sectors. Nevertheless share dividends and buybacks remain encouraging so any uptick in sentiment means that people will suddenly want to be in the market. It is impossible to know whether a bottom has been set, but valuations for UK stocks look very cheap relative to long term prospects.

Summer Read

My recommended read is Howard Marks' latest work The Most Important Thing: Uncommon Sense for the Thoughtful Investor. It focuses on the interplay between investment psychology and stock prices. Marks highlights a quote he has heard many times: "I wouldn't buy that at any price -everyone knows it's too risky." It's relevant now because economic cycles are different, but investor behaviour is nearly always the same. I have seen it several times in the 30 years I have been investing professionally. The investment return you make is a function of the price you pay. Investment is about making good investments, not just buying good businesses, and investment risk is a function of the price you pay for something.

TM CRUX European Special Situations Fund/ TM CRUX European Fund

by James Milne

The main theme over the last four months has been the volatility of the markets and the usual tug of war between growth vs value and cyclicals vs defensives. In June, we saw the biggest hike in interest rates by the US Federal Reserve in over a decade, leading to concerns that it will raise rates too far and push the economy into recession. However, July was a strong growth month as investors sensed that a slowing US economy with eventual weakening job data could lead to a "Fed pivot" with rates being cut again, perhaps in early 2023. This led to bond yields falling and growth outperforming in the rotation towards growth stocks.

Overall, the shift to growth helped the European funds in July with several holdings reporting good results. The pricing power of the companies we buy has proved once again to be an important theme. The European strategies continue to have a strong focus on stocks with pricing power – in other words companies that can fairly easily pass on inflation, which is particularly high at the moment. A few of our holdings had big margin hits because of the price of raw materials.

Brenntag

Brenntag, the global market leader in chemicals and ingredients distribution, upgraded its forecasts for the rest of the year in June. This was based on strong results in the first quarter and the continuing positive earnings momentum in the second quarter. The German company has decent pricing power and been able to pass on inflation costs thus driving margins up. The CEO has done a good job of cost cutting and increasing valuations.

Adidas

We recently opened a new position in Adidas, which designs, develops, distributes and markets athletic and sports lifestyle products worldwide. The stock price has almost halved from its recent peak a year ago leaving it on a modest valuation based on historically low margins. It has significantly derated on the back of a slower-than-expected recovery in China from pandemic restrictions, anti-Western sentiment in the country and concerns over consumer spending. However, we see certain parts of the retail market, in particular athleisure, being resilient even during a recession. We believe Adidas is an attractive growth stock managed by an experienced CEO with a strong track record. Adidas has net cash, is about to start a share buy back programme and is on a significant discount to rival Nike, the global leader. Furthermore, any inventory discounting has been more than factored into the share price.

Sampo

Another stock with resilient earnings is Sampo, the Nordic insurance group, a long-term holding for the funds. The classic insurance part of the business has done well and proved resilient to the increase in economic and geopolitical uncertainty. Its balance sheet remains solid allowing the group to launch a buyback programme.

Schneider

The management of electricals-maker, Schneider, raised sales growth expectations for the full year as they cited robust demand for their energy efficiency and automation solutions given high energy prices and tight labour markets. Schneider has a much higher proportion of recurring service sales than ever before.

Contributors to performance

Two stocks we added earlier this year, ***STMicroelectronics***, a global semiconductor leader and ***Infineon Technologies***, the German semiconductor manufacturer, had good updates and a strong second quarter with the stock market responding positively to the results. Their customers are mainly industry and automobiles. We see significant upside potential for growth in semiconductor stocks given the demand for microchips.

Both our large bank positions, ***Bawag*** and ***Nordea***, released good results and retain robust capital positions. In addition, paper packaging company ***Smurfit Kappa*** saw profits surge as it raised prices but still enjoyed buoyant demand. ***Aalberts,*** the Dutch component manufacturer's revenue grew 10% in the first half, with improving margins.

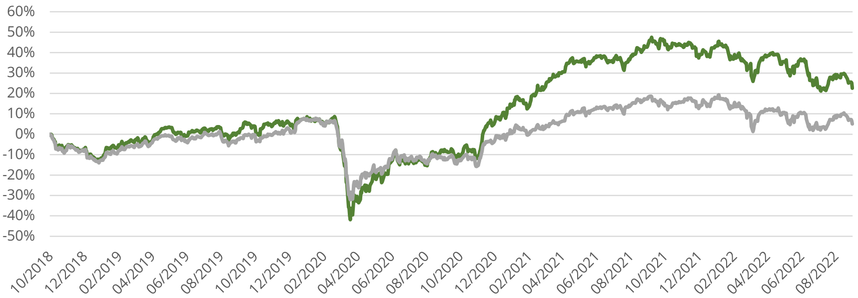
Givaudan

We exited our position in Givaudan, a Swiss multinational manufacturer of flavours, fragrances and active cosmetic ingredients; the European Special Situations Fund had held it for over a decade. This was based on our concerns over its high valuation and the amount of debt it now holds.

Outlook

We are cautiously optimistic about the market outlook given the current bearish investor sentiment and large share price falls among many stocks. The July market rally could possibly be a small sign of the beginning of a new bull market. With equity markets having dropped from their highs, we believe that in many instances stock prices are now overly discounting a sharp recession and ignoring the resilience of our companies' business models. We have found the revenues of our holdings in previous downturns to be resilient; even in a worst-case scenario, valuations still appear to be attractive. We continue to favour firms where management have improved business resiliency by building strong balance sheets over the years.

TM CRUX UK Special Situations Fund - Percentage Growth, since launch (1 October 2018) to 31 August 2022†



★ TM CRUX UK Special Situations Fund I Acc (22.6%)

■ IA UK All Companies (5.1%)

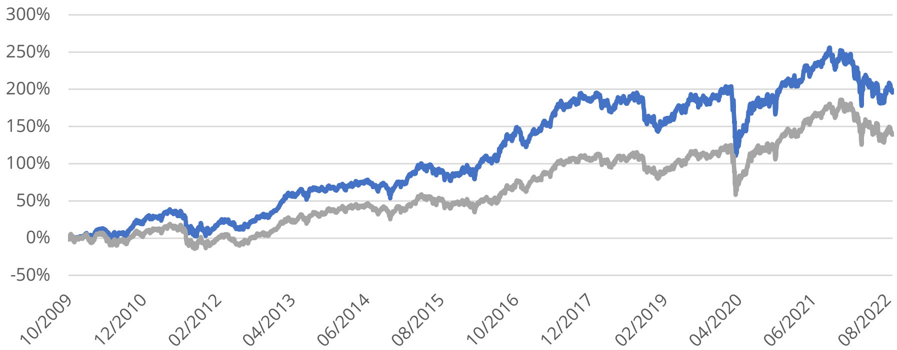
†Note: These figures refer to the past and past performance is not a reliable indicator of future results.

Source: as at 31.08 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	-14.5%	26.0%	5.7%	21.7%	n/a	n/a	22.6%
IA UK All Companies	-10.7%	17.2%	-6.0%	22.2%	-11.2%	14.0%	5.1%

Source: as at 31.08.2022. © 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 31 August 2022†



★ TM CESSF I Acc GBP (195.4%)

■ IA Europe ex UK (139.0%)

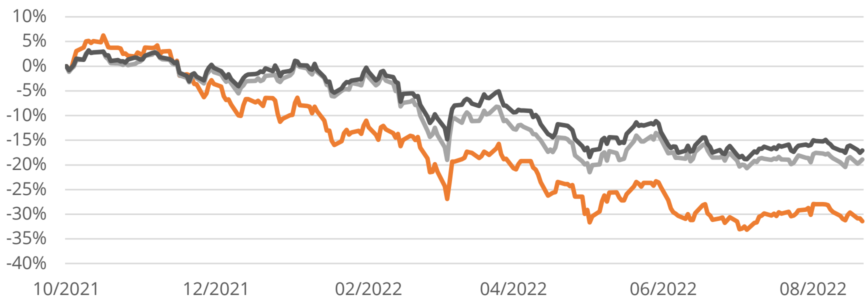
†Note: These figures refer to the past and past performance is not a reliable indicator of future results.

Source: as at 31.08.2022. © 2022 FE Fundinfo. All Rights Reserved. Bid-bid in GBP, net income reinvested.

Discrete Year Performance (%)	YTD	2021	2020	2019	2018	2017	Since launch
CESSF I Acc GBP	-14.8%	12.4%	4.0%	21.0%	-15.2%	20.9%	195.4%
IA Europe ex UK	-14.4%	15.8%	10.3%	20.3%	-12.2%	17.3%	139.0%

Source: as at 31.08.2022..© 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.

CRUX Asia ex-Japan Fund - Percentage Growth, since launch (11 October 2009) to 31 August 2022†



★ CAexJ B Acc GBP (-19.5%)

■ MSCI Asia ex-Japan Sector (-5.0%)

■ IA Asia Pacific Excluding Japan Sector (-2.9%)

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

Source: as at 31.08.2022. © 2022 FE fundinfo. All Rights Reserved. Bid-bid in GBP, net income

Disc Yr Perf (%)	**YTD**	**2021**	**2020**	**2019**	**2018**	**2017**	**Since Launch**
CAexJ B Acc GBP	-14.9%	n/a	n/a	n/a	n/a	n/a	-19.5%
MSCI Asia ex-Japan Sector	-3.7%	-3.8%	21.2%	13.6%	-9.1%	29.5%	-5.0%
IA Asia Pacific Excluding Japan Sector	-3.0%	1.5%	20.0%	15.8%	-9.8%	25.3%	-2.9%

Source: as at 31.08.2022..© 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.

CRUX ASSET MANAGEMENT

Our team

Fund Management

Europe:

Richard Pease
Fund Manager

James Milne
Fund Manager

Roland Grender
Fund Manager

UK:

Richard Penny
Fund Manager

Asia:

Ewan Markson-Brown
Fund Manager

Damian Taylor
Fund Manager

Distribution

Ashley Dale
International Sales Director

Tom Pearson
Regional Sales Director

Will Hamilton
Head of London Discretionary Sales

Elizabeth Gill
Sales Manager

Isabella Wedgwood
Head of Marketing

Recent awards

plc awards 2021
2021
Best Fund Manager: Richard Penny (shortlisted)

Trustnet
Powered by FE fundinfo
2022
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)