

Fund Manager: Richard Penny

TM CRUX UK Core 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 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.

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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.

In Q4, UK markets responded to the incrementally less negative news with the IA UK All Companies Sector rising by 9.7% and the TM CRUX UK Core Fund performing broadly in-line returning 8.7%.

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

Important Information

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Attribution Stock Level Q4 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
WANdisco +2.35	Inspects -1.07
JD Sports +0.78	MaxCyte -0.55
Inchcape +0.78	DCC -0.31
Aviva +0.78	Heiq -0.27
Glencore +0.74	Dr Martens -0.17

Source: Stat Pro as at 31.12.22

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The fund performing in-line with a strongly recovering market was encouraging, given the fund’s focus on capital preservation, as well as the outperformance of the fund over the course of 2022 during which the defensive qualities of the fund were beneficial.

Cyclical companies JD Sports and Watches of Switzerland benefitted from gains of 27% and 25%. Generally trading was reassuring at these companies, and they benefitted from a recovery in cyclical company share prices. Inchcape the motor distributor with Hong Kong and Singapore operations saw a 21% increase, partly due to reduced COVID restrictions between Hong Kong and China.

GSK shares rallied strongly, up 11% over the quarter, after the federal multi-district litigation court dismissed all cases against GSK claiming that the heartburn drug Zantac caused cancer.

During the quarter we sold our position in Aviva following a strong rally from the October lows. We invested the proceeds in St James’s Place due to an attractive valuation relative to the strong and consistent net organic growth which has been delivered historically over a variety of different market conditions and which we expect to continue. Our small companies saw mixed news, albeit on balance were positive for 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%. This more than offset difficulties at smaller position Inspects which fell 68% on trading difficulties in Germany.

Transactions

During the quarter, we added IP Group, IQE and Sondrel to the small companies allocation. IP Group shares were purchased at a 60% discount to NAV, IQE is now led by a very impressive and ambitious management team and the company possesses strong crossover potential with US tech names trading on much high valuations, and Sondrel was floated at an extremely attractive valuation, raising capital to transition the business model in a far more lucrative direction.

Important Information

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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Outlook

Much financial commentary talks of the “R” word and imply 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 expect 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 attractive for investors that are prepared to “look through” bad news and anticipate an eventual recovery in trading conditions.

The TM CRUX UK Core Fund provides a balanced solution to fears of the economic outlook being worse than is already priced into the market via the defensive qualities of the larger names in the fund, whilst still benefitting from any market recovery that we may see in 2023 via the stock picking opportunities that the broad market sell off of 2022 has brought about in specific instances, particularly in the form of small companies which the fund now has controlled exposure to.