

Fund Manager: Richard Penny

## TM CRUX UK Smaller Companies Fund

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### Fund Performance

This is the first quarterly commentary for the new TM CRUX UK Smaller Companies Fund. The launch of the Fund on 31st October coincides with very difficult economic conditions globally. The widespread outflux of investment funds from the UK equity sector in general and the more pronounced small, mid and micro-cap constitute a buyer's market and contrarian opportunity for the launch of our new fund.

The general case for investing in smaller companies is one of meaningful outperformance through the economic cycle and over the long-term. There is however a marked cyclical performance due to a greater exposure to more cyclical sectors.

Although economic conditions are currently poor, we believe that the prices of well financed, and well managed smaller companies could currently be at valuations that are at or close to through the cycle lows.

The management team for the new Fund have over thirty years' experience of investing in UK small companies and a track record of significant out performances in the economic recoveries in 1999, 2003, 2009 and 2020. The team's investment process has a bias towards Growth businesses and targets the distress conditions of a market downturn to buy into premium businesses at discounted prices.

We have invested c.85% of the fund's capital. A market recovery during the quarter has seen a recovery in cyclical and mid-cap companies and we are happy that the fund returned 7.5% to the from the 31st October to 31st December, against a return of 6.3% for the IA UK Smaller Companies Sector.\* The fund is able to take advantage of the mis-pricing of small and micro-cap companies. These are often significantly cheaper than other companies but take longer to see a market recovery. There is still lots more to go for!

\*Source: FE 31.10.22-31.12.22 Bid-Bid in GBP, TR, net income re-invested.

### Important Information

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### Transactions

Whilst not a comprehensive list the below are a number of the stocks we have added to the portfolio since launch, with some of these having cross over into the TM CRUX UK Special Situations Fund. WANdisco, a software company which helps clients move huge quantities of data to the cloud is seeing huge contract momentum among smart metering, EV and telecoms customers. The share price is already up 80% since our purchase for the Fund.

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FD Tech also benefits from “big data”. The KX Systems software subsidiary helps client keep track of time series data. This is growing amongst financial companies but is finding use industry as part of the Internet of Things (IOT) trend. Advanced ADVT is a software company which is the vehicle a thrice successful public market software entrepreneur. The Chairman, Ms Murria has invested c.£15m of her own cash in the vehicle at 100p. The shares at 75p reflect impatience at the lack of an acquisition and a discount to cash we are very happy to be patient.

Sondrel is a custom silicon chip designer. The IPO of the company in October saw the company raise new capital to allow greater profits to be generated from its design wins. We think this is a multiyear growth story as the company’s metrics converge with other industry player’s metrics over time. CyanConnode is an enabling technology for connecting smart meters. For some years Cyan’s technology has been ahead of their time. They are now bidding on c £1bn of Indian smart meter contracts and have a historic win rate of c 25%.

In healthcare we have again invested in service company MaxCyte. The well-financed business has retreated from 1,200p to 440p and is a critical technology for c.100 pharmaceutical programs in cell and gene therapy. One Health Group is a new company to the stock market which helps the NHS conduct common surgical procedures. The profitable growth business has raised money to build a surgical centre to conduct surgery and multiply company profits several fold over a two to three year period.

We have also invested in oil producers Arrow exploration and Touchstone exploration. Both are established cash generative oil producers with upside scenarios somewhat overlooked by the stock market.

In the consumer sector we have 4 recovery style investments.

1. XP Factory operates 26 Boom Battle Bars many of which have opened over the last twelve months with very favourable property deals. The younger client base are seeing less budget pressure and the shares look too cheap at current levels.
2. City Pub Group runs cathedral city pubs and trades at close to a 50% discount to its share price.

### 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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3. Cakebox is a franchise retail business which has seen a share price decline from 419p to 107p. The company has seen some deterioration in trading but has been more resilient than most UK retailers.

4. Ten Lifestyle is a global concierge service which works with major global premium bank and wealth management clients. The company which suffered during COVID, has seen new contract wins and post-COVID trading and now represents a significant recovery opportunity.

Other debut investments have been: Kape plc, Plant Healthcare, HeiQ, Trufin, Distribution Finance Capital, IQE and CML Microsystems.

#### Outlook

UK smaller companies have been severely impacted by a sell off amongst institutional and retail investors. We think the market now represents an excellent opportunity for the opportunistic stock picker. Historically the share price recoveries from market lows have been substantial in the UK stock market and the investment team have also added excess returns over and above such gains in similar economic and market conditions.