

Fund Manager: Richard Penny

TM CRUX UK Smaller Companies Fund

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Fund Performance

Over the period under review, the TM CRUX UK Smaller Companies Fund (B Accumulation GBP) returned +3.4% against its performance comparator the IA UK Smaller Companies Sector return of -2.9%.

In Q1 2023, the UK market continued to move away from the October lows, following Trussonomics and the accompanying LDI crisis, amid signs that the UK economy was holding up better than expected and growing hopes that the US Federal Reserve might be in a position to ‘pivot’ to cutting interest rates in the second half of 2023. Small-caps started to outperform in January and February, however this ended abruptly in early March amid fears of a global banking crisis, fuelled by the collapse of Silicon Valley Bank in the US. Despite this general market setback, we are pleased with the performance of the Fund since launch on 1 November 2022 (up 11.1% vs IA UK Smaller Companies Sector return of 3.2%). Since mid-March markets have displayed green shoots, with investors increasingly comfortable that a global banking crisis is likely to be avoided.

At a stock level, the main contributor to performance since launch was Inspec, returning 121% during the period and contributing c.1.6% to Fund performance. The shares had fallen significantly on the back of earnings downgrades and macroeconomic pressures. We knew the story well having met with management several times and initiated a position having built confidence that the downgrade cycle had likely reached an end and the business was performing well again. There is more performance to come from Inspec in our view.

Inspired, the commercial energy & sustainability advisor, was another strong contributor to fund performance. The shares were purchased under the expectation that underlying performance for FY22 would beat expectations. This materialised and the position was exited generating a c.1.5% contribution to Fund performance during the quarter.

Important Information

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Additionally, Kape Technologies received a bid from its largest shareholder to take the company private. The shares were purchased at c.£2.15 and sold entirely at c.£2.93, returning c.37% and contributing c.1.3% to Fund performance since launch, albeit contributing 0.2% to performance during the quarter.

The main detractor from performance over the period was WANdisco, a Sheffield based technology company, which reported 'significant, sophisticated and potentially fraudulent irregularities with regard to received purchase orders and related revenue and bookings, as represented by one senior sales employee'. The shares had been purchased for the Fund at a low price and had performed strongly until the unprecedented and sophisticated fraud was uncovered. Although it is incredibly disappointing that the profits made by the Fund will not be realised, the start to finish detraction from Fund performance since launch was limited to c.2%, assuming the unlikely scenario that no value remains in the shares on resumption of trading. It is important to note that despite this, more than 8% positive performance has been crystallised since launch in the form of exiting positions that have fulfilled the desired investment thesis (including Ten Lifestyle, Inspired, Kape Technologies, Cake Box and CML Microsystems, among others).

Despite the extremely disappointing WANdisco experience, fraud (especially at this scale) remains very rare in the stock market. We remain unwavering believers in the small-cap premium and the potential for small companies' share prices to go up many multiples on the way out of a recessionary environment, as was demonstrated by the small-cap outperformance on the way out of the pandemic, and by Richard Penny's previous Funds during the 1998, 2003 and 2008 recoveries. Although there has been significant selling of small-cap UK companies by institutions under liquidity pressures, other participants have been buyers. Companies are repurchasing their own shares at substantial levels, which is testimony to the strength of corporate balance sheets. Elsewhere, the level of director purchasing and takeover approaches for UK companies speaks to the long-term value that the "stock market" cannot see.

Headlines for the UK economy remain negative and have been for some time. Paradoxically although the temptation is to sell any asset listed on the UK stock market, there are three specific reasons why this is not the case. Firstly, the majority of revenues on the UK stock market are generated overseas, thus the UK economy is not the UK stock market. Secondly, many of the UK earners in impacted sectors have already declined significantly.

Whilst 2023 will see deteriorations in underlying profit, we believe many of these businesses are now valued too low for their long-term earning power. Thirdly, notwithstanding general economic headwinds, a focussed fund should be able to find the companies that are overly discounted or can outperform in difficult market

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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conditions. In 2020, distressed market conditions brought about the low prices that facilitated significant outperformance from cyclical and disruptive small-cap companies. We believe current depressed conditions offer a strong opportunity to buy well-run, sensibly financed, businesses for the long term.

Source of performance data: FE, 31.12.22-31.03.23, B Accumulation GBP share class, Bid-Bid basis, net income re-invested GBP

Attribution Stock Level Q1 2023

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Inspecs 1.6%	Made Tech -0.6%
Inspired 1.5%	Lifesafe Holdings -0.7%
FD Technologies 1.4%	HeiQ -0.7%
Cake Box 1.1%	IQE -1.4%
Journeo 1.0%	WANdisco -2.3%

Source: Stat Pro as at 31.03.23