CRUX ASSET MANAGEMENT

Fund Manager: Richard Penny

TM CRUX UK Special Situations Fund

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Fund Performance

Over the period under review, the TM CRUX UK Special Situations Fund (I Accumulation GBP) returned 0.7% against its performance comparator the IA UK All Companies Sector return of 2.6%.

During 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. The market recovery ended abruptly in early March amid fears of a global banking crisis, fuelled by the collapse of Silicon Valley Bank in the US. Since mid-March markets have displayed green shoots, with investors increasingly comfortable that a global banking crisis is likely to be avoided.

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The portfolio's best performer over the period was JD Sports Fashion, which rose c.41% to 178p as at 31 March 2023. Shares bottomed at 89p in mid-October, having fallen from a peak of over 230p in November 2021, as investors priced in aggressive earnings downgrades which failed to materialise amid ongoing resilience of consumers. Melrose's share price was impacted by prospects of a global economic recession, and we believed the announcement of a separation of the automotive and aerospace divisions should help management to realise the upside we believe exists in the shares.

The shares were purchased near their trough in Q4 2022 and have returned 25% during Q1 2023, contributing c.0.6% to performance. FD Technologies was a strong performing small-cap amid signs of encouraging progress in regards to the KX Insights partnership with Microsoft. Shares were up 26% during the quarter and contributing c.0.8% to Fund performance.

Attribution Stock Level Q1 2023

Top 5 Contributors (%)	Bottom 5 Contributors (%)
JD Sports Fashion 1.6%	Kistos -0.2%
FD Technologies 0.8%	Serinus Energy -0.3%
Whitbread 0.7%	Heiq -0.4%
Melrose Industries 0.6%	Glencore -0.8%
Vistry Group 0.6%	WANdisco -2.8%

Source: Bloomberg as at 31.03.23

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 was limited to c.0.75%, assuming the unlikely scenario that no value remains in the shares on resumption of trading.

Despite the extremely disappointing WANdisco experience, fraud (especially at this scale) remains very rare in the stock market. We remain firm 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 Fund's 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 and mid-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.

In terms of transactions, we added sports betting and gaming group Entain - we believe these now offer a highly attractive entry price, particularly given the significant potential of the BetMGM joint venture in the US which is being ascribed little to no value by the market. We added Ascential to the portfolio after management announced plans to list

Market Cap

	Fund
>£5bn	31.0%
£500m - £5bn	35.8%
<£500m	32.0%

Source: CRUX Asset Management as at 31.03.23

the Digital Commerce business in the US and the sale of WGSN, returning a significant portion of the proceeds to shareholders. We believe a sum of the parts valuation of Ascential points to material upside from the prevailing share price and this is now in sight given the strategic review taking place. Baltic Classifieds was also purchased for the first time due to the company's dominant market position and low take-rates which should allow material price rises over the medium-long-term with little resistance.

We reinitiated the Fund's holding in Chemring on valuation grounds having derated despite resilient underlying performance, new contract wins, sector leading margins and a deployable balance sheet. We also added small-cap Made Tech to the portfolio. Made Tech floated at 140p in October 2021 and fell c.85% to c.22p in December 2022 despite just one earnings downgrade during the period. We took the opportunity to purchase the shares following a positive update and new contract wins announced, having met with management several weeks earlier and being impressed with the significant potential that remains in the business. In terms of disposals, we sold Darktrace, Cranswick and 888 Holdings.

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 special situations fund should be able to find the companies that are overly discounted or can outperform in difficult market conditions.

In 2020, distressed market conditions brought about the low prices that facilitated the Fund's subsequent significant outperformance from larger cyclical businesses and disruptive small and mid-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, I Accumulation GBP share class, Bid-Bid basis, net income re-invested GBP