

TM CRUX UK Core Fund

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Market Performance

The FTSE 100 rose over the quarter. The large UK-quoted diversified energy and basic materials groups outperformed as they rebounded from weakness in the previous three-month period. They benefited from sterling weakness against a strong dollar. A sharp recovery in crude oil prices buoyed the energy groups in particular.

A number of domestically focused areas of the market also recovered following poor performances over Q2. This occurred amid signs of improving UK consumer confidence and hopes that base interest rates may have peaked. As a result of these top-down trends, a number of mid cap consumer discretionary areas recovered well, the housebuilders in particular.

Attribution Stock Level Q3 2023

Top 3 Contributors (%)	Bottom 3 Contributors (%)
Shell +0.8	One Savings Bank (OSB) Group -1.3
Glencore +0.5	Sondrel -1.3
Grafton +0.5	FD Technologies -1.0

Source: Bloomberg as at 30.09.23

The fund's allocation to small-caps was particularly unhelpful over the quarter, with the FTSE Small Cap Index underperforming large and mid-cap, and the FTSE AIM All-Share Index down c.3%. The UK stock market is currently at a valuation discount to the rest of the world not seen since 1994. For domestically focussed mid and small caps, there is a double discount as UK focussed funds have now had outflows for 27 months in a row. This widespread outflux of capital has depressed mid and small-sized companies' share prices relative to larger UK-listed companies.

Fund Performance

Over Q3 2023, the TM CRUX UK Core Fund (B Accumulation GBP) returned -4.6% against its performance comparator the IA UK All Companies Sector return of 1.3%.

The largest positive contributors to performance over the quarter were Shell and

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Glencore, contributing c.0.8% and c.0.5% respectively, rebounding from weakness over the previous quarter and benefitting from sterling weakness against a strong dollar.

Small-cap Kooth, the digital mental healthcare provider, was the best-performing position in the fund, up c.20% over the quarter. Towards the beginning of the year, we added a small position in Kooth at c.260p following the announcement of a material contract in the US. In July, the fund participated in a fundraising at 300p to support the delivery of the contract and the shares remain materially undervalued in our view with huge opportunities for further contract wins in the US.

The largest detractor from performance during the quarter was One Savings Bank (OSB) Group, down c.30% and detracting c.1.3% from fund performance. OSB announced a one-off charge of c.£180m due to buy-to-let landlords refinancing at a faster-than-expected rate. This accounting change impacted net asset value by c.-6% and future EPS by c.6-8% but reduced this year's profits by c.1/3rd. Due to the fickle market that we are currently in, shares fell 30%+, focusing on the short-term and ascribing little value to the fundamental value that remains in the business. Valuing OSB at a 15% discount to peers provides a target price of c.£6.50, almost double the share price at the end of Q3 2023. The CEO also bought c.£100k of shares after the recent announcement, at a level c.20% higher than at the end of the quarter,

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Small-cap Sondrel was the second largest detractor during Q3, down c.74% and detracting c.-1.3% from fund performance after announcing the delay of major projects as clients delayed spending amidst the challenging macroeconomic environment. Management remains confident in the business's long-term prospects, but the short-term outlook is uncertain and a small fundraise remains a possibility in our view. Despite the disappointing project delays in Europe, it is encouraging to note that Sondrel is experiencing significant traction in the US market with a growing pipeline. We believe returns above and beyond our entry point remains entirely possible.

FD Technologies was the third largest detractor during the quarter, down c.24% and detracting c.1.0% from fund performance. FD Technologies has built a time series database which is growing strongly and has yet to reap the full benefit of tie-ups with Microsoft, Snowflake and AWS. This application should grow 25-40% within the financial services, defence and industrial sectors. More recently it has become evident that there is additional scope for the company's vector database to be useful in AI applications for which we believe there is little or nothing in the share price, with the shares off 65% from its highs.

Transactions

No new positions were added to the portfolio during the period. Cakebox was exited entirely, having sold down the majority of the position during the previous quarter following strong share price performance.

Outlook

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

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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.

Notwithstanding general economic headwinds, a focused 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 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.

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The TM CRUX UK Core Fund is a sub-fund of TM CRUX OEIC (the 'Company'). The Company is an investment company with variable capital and is a UCITS Scheme. It is incorporated under the Open-Ended Investment Companies Regulations 2001 ('OEIC Regulations') in England and Wales under registry number IC001022. The Company is regulated by the FCA and was authorised on 10 December 2014. This information is only directed at persons residing in jurisdictions where the Company and its shares are authorised for distribution or where no such authorisation is required.