

Fund Managers: Richard Penny

This is a Marketing Communication

TM CRUX UK Smaller Companies Fund

“ Light Science Technologies was up c.154% during Q3, contributing c.2.4% to fund performance following strong interim results after the Fund participated in a fundraise at a 75% discount to the prevailing share price. ”

Market Performance

Although the FTSE Small Cap Index was up c.1% over the quarter, the FTSE AIM All-Share Index was 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 focused 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.

Attribution Stock Level Q3 2023

Top 3 Contributors (%)	Bottom 3 Contributors (%)
Light Science Technologies +2.4	Sondrel -2.7
Kooth +0.5	FD Technologies -1.3
Bango +0.1	Maxcyte -0.9

Source: Bloomberg as at 30.09.23

Fund Performance

Over the period under review, the TM CRUX UK Smaller Companies Fund (B Accumulation GBP) returned -6.6% against its performance comparator the IA UK Smaller Companies Sector return of -1.9%.

Although it has been somewhat of a difficult trading environment, individual stocks in the portfolio have generated some significant gains since fund launch and demonstrate what we believe to be possible in a more helpful investment background.

During the quarter, the most significant positive contributors to performance were Light Science Technologies and Kooth. Light Science Technologies was up c.154% during Q3, contributing c.2.4% to fund performance following strong interim results after the Fund participated in a fundraise at a 75% discount to the prevailing share price.

Towards the beginning of the year, we added a small position in Kooth, the digital mental healthcare provider, at c.220p 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.

Sondrel was the largest detractor during Q3, down c.74% and detracting c.-2.7% from fund performance after announcing the delay of major projects as clients delayed spending amidst the challenging macroeconomic environment.

Important Information

Please note the views, opinions and forecasts expressed in this document are based on CRUX's research and analysis at the time of publication. Before entering into an investment agreement in respect of an investment referred to in this document, you should consult your own professional and/or investment adviser. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. If you invest through a third party provider you are advised to consult them directly as charges, performance and terms and conditions may differ materially than those shown on this document. Please read all scheme documents prior to investing. The KIID and Fund Prospectus and other documentation related to the Scheme, are available from the CRUX website.

Management remains confident in the businesses 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 second largest detractor during the quarter, down c.24% and detracting c.1.3% 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.

“ ”

The timing of any investment uptick is uncertain, but any pick-up in economic activity, investor sentiment, or a pause to market outflows could trigger the conditions that helped the fund management team deliver c.168% and c.150% returns in the recoveries of 2009 and 2020 following the GFC and COVID crises.

Transactions

General growth stock Ultimate Products Group was added to the fund during the quarter and is a fast-growing branded consumer homewares company trading under the Salter Beldray and Constellation brands. The business has overcome consumer and supply chain headwinds to deliver growth and has significant potential to continue expansion into European Retail. The shares have been sold off with other retail shares despite their resilience and have a substantial growth and re-rating potential.

Outlook

Our overriding investment objective is to buy long-term growth companies at depressed valuations. Currently, economic headwinds are interrupting long-term growth patterns and causing disrupted and distressed valuations. Such price upsets in a period of few buyers is a rare opportunity that has the potential to deliver significant individual share price gains over the medium term and beyond.

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. Whilst we will likely see more companies experience deteriorations in underlying profit, we believe many of these businesses are now valued far too low for their long-term earning power.

The timing of any investment uptick is uncertain, but any pick-up in economic activity, investor sentiment, or a pause to market outflows could trigger the conditions that helped the fund management team deliver c.168% and c.150% returns in the recoveries of 2009 and 2020 following the GFC and COVID crises.

Important Information

Please note the views, opinions and forecasts expressed in this document are based on CRUX's research and analysis at the time of publication. Before entering into an investment agreement in respect of an investment referred to in this document, you should consult your own professional and/or investment adviser. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. If you invest through a third party provider you are advised to consult them directly as charges, performance and terms and conditions may differ materially than those shown on this document. Please read all scheme documents prior to investing. The KIID and Fund Prospectus and other documentation related to the Scheme, are available from the CRUX website.

The TM CRUX UK Smaller Companies 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.