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This is a Marketing Communication

TM CRUX UK Smaller Companies Fund

Over the period under review, the TM CRUX UK Smaller Companies Fund (B Accumulation GBP) returned 3.2% against its performance comparator the IA UK Smaller Companies Sector return of 1.4%.

Market Conditions

Whilst the UK economic growth backdrop is below its long-term trend, it has recently outperformed previous expectations and the February Monetary Policy Report saw the Bank of England raise its profile for GDP growth across the forecast horizon. The latest GDP data suggests that the UK's 'very small recession' is already over, with surveys pointing to a recovery in activity around the end of last year.

UK inflation is falling faster than the Bank of England's forecasts published in November 2024 and wage growth has turned positive in real terms after the 'real incomes shock' of 2022. Inflation should continue to fall faster than real wage growth through 2024 and the falling gas price has stayed low, providing some relief to households. Consensus currently points to June 2024 as the beginning of interest rate cuts by the Bank of England.

The UK stock market has experienced 33 consecutive months of outflows and this has impacted investor behaviour in a number of ways:

- 1) There has been a significant rotation into defensive and large-cap companies. Bad news is punished disproportionately, even when a lot of bad news is already reflected in the share price.
- 2) Momentum has been outperforming value. Globally, capital has flowed into the US market which is led by the Magnificent 7 and flowed out of unloved economies such as the UK, with small and micro-cap companies hit hardest due to lower liquidity. The disparity in valuations between markets is well illustrated by insiders selling their own stocks in the US (Jeff Bezos \$8.5bn, Mark Zuckerberg \$135m in February 2024 & Peter Thiel, \$175m in March 2024) and external institutions launching takeover bids in the UK with M&A activity up 88% YoY and almost half of approaches coming from overseas.

Important Information

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3) Notwithstanding some remaining economic headwinds, out of favour cyclicals and small and micro-caps are frequently trading at cyclically low valuation multiples on depressed earnings. External buyers with a medium-term view are taking advantage of this through M&A.

Falling UK interest rates, currently expected to begin in June, should lead to a positive backdrop of value and momentum and a reversal of point 1 above.

Fund Performance

Over the period under review, the TM CRUX UK Smaller Companies Fund (B Accumulation GBP) returned 3.2% against its performance comparator the IA UK Smaller Companies Sector return of 1.4%.

A notable proportion of the fund's outperformance can be attributed to micro-cap Incanthera, up c.131% and contributing c.2.8% to fund performance. At the end of 2023, Incanthera announced a deal with Marionnaud in Switzerland to distribute 'Skin+CELL', its advanced dermatological solution for the delivery of vitamin B3 for skin protection and cosmetic rejuvenation. Marionnaud is part of the A.S. Watson Group who operate over 16,000 retail and online stores globally. The fund participated in a fundraise to fund the manufacture of the initial order of products and in March the company announced that the initial order size had been doubled due to the anticipation of strong demand by Marionnaud's management. The enlarged order is being manufactured and is on track for delivery to Marionnaud in Switzerland and Austria during Q2 2024. Should the initial launch of the product prove to be a success, much larger follow-on orders are expected to roll-out the product across the rest of Europe and into Asia which would be transformational for the business.

AdvancedADVT was the strongest performer over the quarter and was also a large position in the fund, up c.55% and contributing c.2.9% to fund performance. The shares recommenced trading in mid-January, having been suspended at 82p following the acquisition of 5 software businesses from Capita which constituted a reverse takeover. The shares were valued at a discount to cash at the time of suspension and bounced c.20% immediately on resumption of trading. Since then, the shares have made more progress as a trading update outlined performance that was ahead of expectations, significantly aided by pricing action taken by management. We expect further progress to be made with the acquired Capita businesses over the medium-term and with a substantial cash balance remaining, we expect additional acquisitions to be made at attractive valuations.

Notable detractors from performance over the period included Jadestone Energy, Creo Medical and Inspecc. Jadestone Energy was down c.35% during the quarter and detracted c.1.6% from fund performance. Jadestone announced that 2023 production was above guidance and that year-end net debt was lower than consensus expectations. However, the most material news was increased life of field cost estimates at 2 of their oil field assets, due to a higher work-scope and inflation. The resulting reduction in Core NAV to c.50p per share remains materially higher than the prevailing share price of c.24p. The company has recently entered into a process to acquire a large oil producing asset which could be transformational for the business.

Creo Medical was down c.26% over the quarter, detracting c.1.4% from fund performance, despite a strong trading update in February. The company reported strong revenue growth, improved margins and a higher cash balance than expected. Scepticism remains regarding Creo Medical's ability to reach cashflow breakeven without another fundraise but we believe a

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further fundraise can be avoided and they have sufficient levers that can be pulled. Further progress will also need to be seen in their Core Technology sales which grew c.250% in 2023 but from a low base. Positive updates on the company's partnership with Intuitive Surgical (\$135bn market cap) should be very helpful for the shares. The fund participated in a fundraise in early 2023 at 20p and is up over 70% since then despite the weakness over Q1 2024.

Transactions

In terms of transactions, the fund initiated a position in Beeks Financial Cloud Group. Beeks sells managed, scalable, low latency, cloud computing and connectivity solutions to capital market institutions, connecting them to trading venues. More recently, the company has started to target global exchanges and electronic trading networks to help them increase the efficiency of and extract more revenue from their datacenters which connects asset managers and brokers. In February, Beeks announced a multi-year contract with one of the world's largest global exchange groups, pending regulatory approval. In March, Beeks announced a significant contract extension with the Johannesburg Stock Exchange to meet stronger than anticipated demand. We believe the shares are materially undervalued relative to the company's potential.

Hostelworld was also added to the portfolio during the quarter. Hostelworld is an Online Travel Agent (OTA) focused on the hostelling category, where it is one of the market leaders. Unlike other OTAs, its app offers a number of social-network-based features (recently launched), allowing its guests to interact with one another before, during and after their stay, and to organise joint activities. The full-year 2023 results provided several strategic proof points demonstrating the increasing traction of its unique social network, with 74% of bookings now coming from members, reducing cost of customer acquisition and marketing spend requirements.

CML microsystems was sold from the fund following a disappointing trading update, noting that some customers and channel partners were continuing to reduce their inventory levels, a process that the company now expects to last into the second half of 2024. Although we believe the valuation of the shares is well below fair value, the position in the fund was relatively small and we decided that the proceeds from the sale could be better deployed elsewhere.

The fund participated in a fundraise for Domino's Pizza Poland (DPP) during the quarter. DPP announced a £20.5m equity raise to fund future growth which includes Domino's Pizza Group, the UK business, becoming a strategic investor. Led by new CEO Nils Gornall, DPP has very good momentum and has been transformed in a short period of time since his arrival. It is targeting 200 stores, from 116 presently, by 2026 and is transitioning to a capital light, franchise led model which has been key to the success of the other Domino's businesses globally.

Pendragon, now called Pinewood Technologies, was added to the fund during the quarter. Pendragon announced approval to dispose of its UK motor retail and leasing businesses to Lithia Motors, before transitioning to a pure-play Dealer Management System (DMS) software business under the name of Pinewood Technologies. We think there is significant value potential in the ongoing Pinewood business, particularly under the growth plan with Lithia which will see new users come from Lithia's 50 UK sites, and a Joint Venture to sell the Pinewood product in the North American market. Being separate from the Pendragon businesses should allow Pinewood to pursue larger UK motor retailers that would previously not engage with a competitor.

Outlook

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The fund is well positioned for an economic recovery and falling UK interest rates, currently expected to begin in June, which should lead to a positive backdrop of value and momentum and a reversal of the outperformance of large-cap defensives experienced over the past couple of years.

Fund's managed by Richard Penny have historically outperformed significantly during economic recoveries with the L&G UK Alpha Trust returning c.173% trough to peak following the Global Financial Crisis in 2008/2009, outperforming the IA UK All Companies Sector by c.88% and the TM CRUX UK Special Situations Fund returning c.151% trough to peak following the COVID-19 pandemic, outperforming the IA UK All Companies Sector by c.75%. We believe that valuations being close to historic lows in the UK, 33 consecutive months of outflows depressing share prices and being on the cusp of UK interest rate reductions and an economic recovery sets up the potential for a similar phase of outperformance for the TM CRUX UK Smaller Companies Fund. External institutions launching takeover bids in the UK, with M&A activity up 88% YoY and almost half of approaches coming from overseas, is a strong indication of value and should help to mitigate the impact of outflows from the UK market in the interim.

Small-caps outperform over the long-term, hence the 'small-cap premium', but are more volatile in the short-term and therefore historically periods of weak performance should have been seen as significant buying opportunities. We believe this is true of the current UK small-cap market having experienced the 4th worst AIM performance on record since 1995 in 2022 (down c.32%) and another negative year in 2023 (down c.8%). The 5-year return for AIM was c.-19% as at the end of Q1 2024. Historically, when the 5-year historic return for small caps turns negative, the average subsequent returns over the next 1, 3 and 5-year periods have been >50%, >120% and >260% respectively.

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