Monthly Commentary
February 2021

CRUX ASSET MANAGEMENT

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TM CRUX UK Special Situations Fund

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The TM CRUX UK Special Situations Fund ended January down 0.9% modestly behind the IA UK All Companies down 0.8%.*

In the UK developments around COVID-19 saw an increase in negative news with a tighter lockdown of the economy required during January to combat increased incidences of the disease and more adverse strains. This negatively impacted cyclical holdings in the Fund such as house builders Bellway (-7%) and Vistry (-10%) as well as Euromoney (-11%) and Whitbread (-10%).

News from Prudential that it intends to demerge its US subsidiary Jackson Life, and distribute shares was taken badly by the market with the shares falling 13%. This action will, we believe, enable a better comparison with pure play Asian insurer AIA, with commitment of a $2-3billion fund raising for the parent company the main reason for the negative share response. Prudential is valued at £31billion and if there were a fund raise we would consider adding to our position.

Positive news from our small-cap holdings mostly offset the negative economic news. A strong trading update from MaxCyte saw a welcome 27% share price increase. MaxCyte makes equipment which enables the modification of human genes for many of the World's leading pharmaceutical companies, the trading update saw the number of drugs the company is partnered with rise from 100 to 140. Ultimately the revenue of the company will scale directly from this metric as it benefits from product sales, as well as milestones and royalties from products sold.

Trufin, a niche lender, saw its Satago division partner with Lloyds Bank. Lloyds will license Satago's software platform for its customers seeking single invoice finance solutions this led to a 21% share price rise for Trufin.

*Source: FE 31.12.20-31.01.21 Bid-Bid, net income re-invested.

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During the month Escape Hunt (+59%) was the Fund's top performer. A trading update provided positive news on virtual escape rooms as well as a highly accretive acquisition. Nonetheless the share price recovery was caused as much by a highly distressed previous valuation as it was positive company developments.

Last month's Brexit trade deal removes a great deal of political and economic uncertainty for the UK stock market. We believe that the UK market valuation is cheap in both absolute and relative terms. After the Brexit referendum in 2016 UK equities progressively moved to a 50-year low valuation against rest of the world, we are hopeful that this gap will narrow.

Our Special Situations philosophy and approach to UK equities sees us target companies undergoing positive change that will benefit their share price. Much comment has been made of the US's greater exposure to technology trends and growth companies, with our emphasis on small and mid-cap companies we are able to target overlooked UK beneficiaries of such trends which are often substantially cheaper than global comparators.

Alongside this we are actively targeting recovery situations, where distressed prices have the potential to return to more normal levels as the economy activity recovers to a 'more normal' level. Whilst such an approach may appear counter-intuitive in the light of daily negative news about COVID-19, the stock market level tends to "look forward" 3-6 months and on this basis we see strong upside to our stock picking.