

Rockwood Strategic (RKW)

19/11/2024

Results analysis from Kepler Trust Intelligence

Once again, Rockwood Strategic (RKW) has delivered an index-beating performance in the half-year period ending 30/09/2024, with a NAV and share price total return of 22.9% and 21.7% respectively, compared to a decline in the FTSE AIM All-Share Index of -0.4% and an increase in the FTSE Small Cap (ex-ITs) Index of 13.2%.

The last three years have been challenging for UK small-caps, with poor investor sentiment and a difficult macroeconomic environment weighing on valuations. Against a decline of 40.5% and 5.8% respectively in the FTSE AIM All-Share and FTSE Small Cap (ex-ITs) indices, Rockwood has achieved a commendable NAV and shareholder total return of 48.5% and 68.0% respectively in the three-year period ending 30/09/2024.

Strong contributors to outperformance included business loan platform Funding Circle, communications specialist Filtronic and education market services provider RM Group.

Chair Noel Lamb commented: "The portfolio continues to well exceed our target 15% Internal Rate of Return (IRR) over three to five years. However, the primary driver for profit growth in our usual investment time horizon is self-help and better operational execution, leading to substantially improved profit margins and free cash flow generation."

Kepler View

Rockwood Strategic (RKW) takes a differentiated approach to the UK small-cap sector by investing at the sub-£250m end of the market cap spectrum, which is relatively untapped by other small-cap funds due to size and liquidity constraints. Manager Richard Staveley holds a high conviction portfolio of around 20 companies, looking for undervalued and overlooked companies with the potential to deliver a 15% IRR over three to five years.

Funding Circle, an SME-focused lending platform, has been a stand-out performer for the trust, with Rockwood buying an initial stake in January at 34 pence per share when the market cap of the company was below its unrestricted net cash position. Rockwood's engagement with the management team led to the instigation of a share buyback programme, sale of its loss-making US business and a UK cost-saving program with the company's share price rising to just under 140 pence by the period end.

Another success story for Rockwood is Filtronic, a provider of specialist communications equipment, with the trust first purchasing a stake in May 2023. The company announced a multi-year strategic partnership with SpaceX earlier this year accompanied by significant upgrades to earnings forecasts. As a result, Filtronic's share price has increased more than five-fold from 12 pence at the time of investment to 68 pence (as at 30/09/2024).

Both of these examples are testament to Richard's stock-picking expertise and the potential alpha generation from his active engagement with the company which is akin to a private equity approach. Rockwood's focus on 'self-help' change programmes to drive earnings growth, rather than relying on macro factors, has provided the foundation for the trust's impressive returns over the last five years despite the challenging backdrop for UK small-caps.

Looking ahead, the outlook for UK equities looks more promising given the improving macroeconomic backdrop and clear signs of a revival in investor appetite. While stock-specific factors will continue to be the primary driver of returns, Rockwood's high-conviction portfolio is well-placed to capitalise on a broader sector recovery but should, as the last few years have shown, be able to continue to produce attractive returns even if the current conditions persist.

[CLICK HERE TO READ THE FULL REPORT](#)

Visit [Kepler Trust Intelligence](#) for more high quality independent investment trust research.

Important information

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness

of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

[PLEASE SEE ALSO OUR TERMS AND CONDITIONS](#)

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.

This information is provided by Reach, the non-regulatory press release distribution service of RNS, part of the London Stock Exchange. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact ms@lseg.com or visit www.ms.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

NRAZKLFFZFLXFBF