



# Results analysis: Rockwood Strategic

**RKW continues to deliver stellar returns, despite the challenging backdrop for UK small-caps...**

Update  
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- 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.
- Due to its sector-leading performance, Rockwood traded at a premium for most of this six-month period and reached high single digits in June, although the board has been active in managing the premium through a block listing programme.
- Strong contributors to outperformance included business loan platform Funding Circle, communications specialist Filtronic and education market services provider RM Group. Filtronic's share price has risen particularly strongly this year on the back of the announcement of a strategic partnership with SpaceX, as well as material upgrades to earnings forecasts.
- Chair Noel Lamb commented: "The portfolio continues to well exceed our target 15% Internal Rate of Return (IRR) over three to five years. The period was characterised by the beginning of Central Bank cuts to interest rates across the world and the British General Election result. The former has typically been supportive for UK small company share performance. 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."

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## 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. Richard takes large stakes in portfolio companies, allowing the trust to take an active approach in instigating operational, management and strategic changes where needed.

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.

The manager is now upbeat about the turnarounds underway following management and operational changes in a range of Rockwood's holdings such as Trifast, James Fisher & Sons, Flowtech Fluidpower and Capita which should drive performance in 2025 and beyond.

Rockwood's discount has steadily narrowed during Richard's tenure and the trust has traded at a premium for much of this year. The board has been active in managing the premium, with the authority to issue up to 20% of share capital per annum and a further 20% approved at the recent AGM. This has led to a narrowing of the premium which may provide a more appealing entry-point for UK investors.

Looking ahead, the outlook for UK equities looks more promising given the improving macroeconomic backdrop and clear signs of a revival in investor appetite. Historically, UK small-caps have also performed well during periods of declining interest rates. 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.

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