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Results analysis: Rockwood Strategic

RKW's shares have doubled in five years, compared to either flat or falling small-cap indices.

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- **Rockwood Strategic (RKW) has released its interim results for the six-month period ending 30/09/2026, in which manager Richard Staveley oversaw a NAV total return of 17%, whilst the share price total return was 21.6%. The trust has no formal benchmark, although it uses the FTSE Small Cap (ex-ITs) Index and the FTSE AIM All-Share Index as comparators, which returned 15.1% and 9.8% respectively.**
- **Active stock-picking has contributed to strong long-term outperformance, with RKW delivering NAV and share price total returns of 79.5% and 103.3% to 30/09/2026, which compares to 7.9% and -36.7% for the two comparator indices over the same period.**
- **Strong returns from high-conviction positions were again the primary driver of performance. Funding Circle was the biggest contributor, following a jump in revenues and profits which saw shares rise c. 47% in six months. Kooth rose 81.4% following Meta's $18 billion fine to be spent on youth mental health and growing confidence in a renewal of the key contract in California. Restore rose 28% after its own strong interims, with margins, sales growth and profits all up over 20%. Richard has recently joined Restore's board as a non-executive director, reflecting RKW's differentiated, active approach.**
- **The period saw three disposals. Two of these were a result of completed takeovers, Treatt and Van Elle, which resulted in IRRs of 44.9% and 12.4% respectively. There was also a bid for Tribal in the period, indicating an unrealised IRR of 111.8%, which completed shortly before the results' publication. The third disposal saw Richard exit his Filtronic position following considerable success. This secured a gain of £21m at an IRR of over 211% in three years.**
- **There were four new positions taken in the period. Three of these; construction materials firm Marshalls, radiator firm Stelrad and LSL Property Services have considerable exposure to domestic housing spend. The fourth addition is regulatory, governance and business training firm Wilmington. In addition, there were several top-ups in existing names, in particular the biggest detractors to performance such as Capita, Vanquis Banking and Videndum.**
- **We note that the parent group Harwood Capital now owns over 5% of the shares in 22 of RKW's 25 investments and has successfully proposed board members to 11 holdings.**
- **The trust has traded at a premium for much of the period, enabling considerable share issuance. This, combined with strong performance, has seen NAV grow by over 30%, leading to assets increasing to nearly £200m. With this in mind, the board, in conjunction with the manager, is beginning to plan for capacity management.**
- **Chairman Noel Lamb noted: "Our approach is clearly differentiated from other UK small company funds; concentrated, 'value' focused, seeking 'recovery' situations and adding value through active engagement with our investments".**

Kepler View

Rockwood Strategic (RKW) has delivered another period of impressive results, posting a total return in the high teens, a very commendable result for just a six-month period. What we believe is particularly notable is the outperformance of the wider UK small-cap market despite it also, finally, having a better time. The asset class has been under pressure for a number of years, although this has not stopped manager Richard Staveley's stock-picking prowess and hands on approach delivering excellent returns for RKW's shareholders. However, RKW showing it can outperform in a supportive environment as well is very encouraging in our view, especially considering the potential of this to be a sustained UK recovery after such a long time out of favour.

The portfolio changes are also interesting. Whilst Richard continues to focus on bottom-up, stock-specific factors, identifying three stocks with exposure to domestic household spending is intriguing, and creates a clear path for the trust's differentiated approach to continue to achieve alpha from a portfolio of stocks unlikely to overlap with any peers.

Whilst this allocation could be beneficial in an environment where consumer sentiment begins to recover, Richard notes in the results that the overall economic picture remains mixed. Inflation remains a concern, although economic growth has been surprisingly good despite the country still struggling with political issues. The UK small-cap market has done well despite these contrasting factors, admittedly in large part due to elevated M&A activity. This all leads to a very mixed outlook, making it difficult to call where the market might go next. With this in mind, we believe RKW looks like a compelling option at this juncture, considering how Richard has managed to extract alpha from the market in a variety of market conditions, leading to excellent, long-term outperformance.

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