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Rockwood Strategic

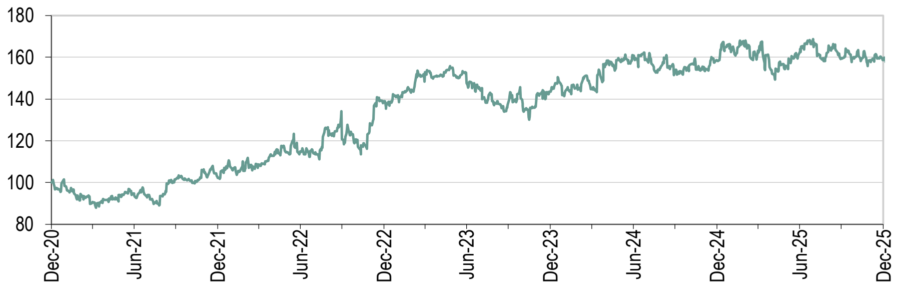
Value realisation from UK small-cap stocks

Investment companies
UK small-cap equities

26 January 2026

Rockwood Strategic's (RKW's) manager, Richard Staveley at Harwood Capital, is very upbeat about the trust's prospects, noting that his degree of confidence about the future success of RKW's largest positions is at an all-time high. His universe is UK companies with a market capitalisation predominantly below £250m at the time of investment. This is a fertile hunting ground as it is the most inefficient part of the UK market in terms of the least number of professional investors, the least research coverage and the least media attention. The manager aims to generate a 15% annual internal rate of return (IRR), over a five-year period, from a concentrated portfolio of small-cap UK stocks that are trading at a significant discount to their estimated intrinsic value.

Exhibit 1: Meaningful NAV outperformance vs UK small-cap stocks, last 5y



Source: LSEG Data & Analytics, Edison Investment Research. Note: UK index is Small Cap ex Investment Trusts.

Why consider RKW?

The manager's value-based approach has proved very successful, with RKW outperforming the UK small-cap market over the last three and five years. The trust has also generated superior five-year NAV total returns compared with all of its 18 peers in the AIC UK Smaller Companies sector, and it ranks third out of the 19 funds over the last three years.

RKW is a concentrated fund, with just 25 names. An average three or four new companies that can benefit from operational, strategic or management changes are added to the portfolio each year, allowing Staveley plenty of time for due diligence before investing. He is able to draw on the resources of an investment advisory group, which is made up of six highly experienced investment professionals who bring their insights, networking opportunities and any concerns to the stock selection process. The manager employs a five-step, repeatable investment process: idea generation, due diligence, expanded due diligence, engagement and portfolio management. Engagement is taken very seriously, as the manager believes it leads to a greater understanding about a company and can improve shareholder outcomes. Harwood Capital has board representation, or has successfully proposed board appointments to, 10 investee company boards.

Since the end of 2023, RKW has regularly traded at a premium, which has led to share issuance and a significant increase in the company's size. In FY25, the share base increased by c 24%, raising c £19m, and so far in FY26, the share count has increased by c 38%, raising c £41m.

Price		**298.00p**
Market cap		**£160m**
Total assets		**£156m**
NAV		291.2p
[1]At 16 January 2026.		
Discount to NAV		(2.3)%
[1]Trading at a premium.		
Current yield		0.0%
Shares in issue		53.6m
Code/ISIN		RKW/GB00BRRD5L66
Primary exchange		LSE
AIC sector		UK Smaller Companies
Financial year end		31 March
52-week high/low	310.0p	228.0p
NAV high/low	295.5p	233.1p
Net gearing		0.0%
[1]At 31 December 2025.		

Fund objective

Rockwood Strategic seeks investments capable of delivering a 15% internal rate of return over a three- to five-year horizon in publicly listed UK small companies.

Bull points

- The trust has a strong record of outperformance versus both its peers and the UK stock market.
- Disciplined, repeatable, bottom-up stock selection approach.
- Tentative signs of improved investor sentiment towards attractively valued UK market.

Bear points

- Concentrated portfolio brings higher performance risk.
- Key person risk – RKW's manager is not part of a large investment team.
- Lack of regular dividends.

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RKW: Value-based investment strategy continues to deliver

The trust offers differentiated, concentrated exposure to UK small-cap value stocks. Staveley targets an annual 15% IRR on investment over the long term, which is equivalent to a 2x return over a five-year period. RKW does not have a benchmark, with the manager aiming to generate positive returns in any market environment. Staveley is an active investor with 'skin in the game' as he owns just under 1% of the company, with Harwood Capital owner Christopher Mills holding a further 16%. The manager reports that the RKW story is gaining traction as there are many new holders on the shareholder register.

New companies are added to the portfolio as a 'springboard investment' (2–4% of NAV) and may be increased to a 'core investment' (5–15%). At the end of 2025, there were nine core holdings that made up 35.5% of the portfolio. RKW's portfolio is attractively valued at less than 1x sales, while more than 50% of the fund is made up of companies with a net cash position.

Exhibit 2: RKW's top 10 holdings

Company	Sector	End of Q4 CY25	End of Q4 CY24
RM	Education services	11.9	13.1
Capita	Business services	9.5	N/A
Vanquis Banking Group	Financial services	7.7	4.4
Filtronic	Technology	5.7	7.9
M&C Saatchi	Media & entertainment	5.4	5.4
Capital	Mining Services	5.2	N/A
Funding Circle	Financial services	5.1	8.4
Trifast	Industrials	4.4	7.8
Restore	Business services	4.3	3.8
Mercia Asset Management	Financial services	4.0	N/A
Top 10		**63.2**	**67.5**

Source: RKW, Edison Investment Research. Note: N/A where not in end of Q4 CY24 top 10.

Highlights of H126 (ending 30 September 2025)

NAV and share price total returns were +12.5% and +11.5%, respectively, versus the UK Small Cap (ex IT) index's +12.1% and UK AIM All-Share Index's +14.8% total returns. RKW joined the UK All-Share and UK Small Companies indices.

There were three new investments. Treatt is an ingredient manufacturer, primarily for the beverage industry. Its shares have derated considerably in recent years, having become overvalued during a period of zero interest rates. The company lost its long-term CEO and his replacement faced operational issues, which were poorly addressed and so he has also left the business. RKW's position was initiated below net asset value. Treatt subsequently received a takeover offer from Natura Group, a private equity-backed trade buyer. The deal was blocked by another trade competitor, Döhler Group, which built a 28% stake in Treatt. Staveley considers that it will take five years to turn the business around; however, he sees significant value in the company, a view that is validated by the buyout interest from two of Treatt's industry peers.

Tribal Group is a provider of education software and services, and its stock price rose rapidly following the initial purchase. Staveley has followed this company for more than 20 years through a series of disposals, leaving just two businesses, of which only one is likely to be a core operation. Tribal has been slowly moving its university and higher-education customers from an on-premise software/hardware administration services solution to a cloud-based SaaS offering. The investment phase has been long but should benefit the clients, as well deliver a higher-margin, recurring earnings stream for Tribal. Its other division offers a range of services including inspection. Staveley initiated the Tribal position at a deep discount to a prior takeover bid. At the end of H126, Tribal was trading on 2.2x annual recurring revenues, which are expected to grow, versus 3–5x multiples for similar businesses. Staveley believes that Tribal's shares can re-rate given the company's industry standing, geographic expansion opportunities via its existing customer base and completion of the SaaS conversion project.

RKW's third new holding was not included in the H126 earnings release, as the position was still being built at the time. Subsequently, the new name was disclosed as Focusright, which designs and manufactures audio interfaces, equipment and audio reproduction kit for the global market. The company has significant margin improvement potential, large addressable markets and a depressed valuation relative to its history.

Housebuilder Galliford Try exited the portfolio having delivered on the original 2022 thesis of a major business improvement under a new CEO. At the time of purchase, Galliford's shares were trading at a discount to its cash in the bank. Since then, operating performance has improved considerably and the company's shares have re-rated and are part of the UK 250 Index. Staveley engaged with Galliford around buybacks and dividend policy, and realised a 48.2% IRR, 2.4x return on investment and a £3.3m profit, including dividends on the position. The manager does not envisage another doubling in the share price, so the position was sold.

The UK investment backdrop

Staveley considers the US is ripe for profit taking, while the UK, especially in small-cap stocks, is ripe for profit making. The US market is trading at record price-to-book and weighted price-to-sales valuation multiples. US margin debt has spiked over the last 18 months and US hedge fund leverage is around twice its historical levels.

Despite UK large caps performing well in 2025, generally, the UK remains out of favour with global investors. Any inflows are likely to head to open-ended funds, which dominate the UK market and tend to avoid micro-cap stocks, Since 1997, UK pension fund allocations to UK equities have fallen from 53% to 4%, so surely cannot fall much lower. UK inflation is moderating, which makes the prospect for interest rates cuts, from the current growth-restrictive levels, more likely. This should be positive for small-cap stocks in particular. Smaller UK companies look relatively attractively valued compared to larger businesses, while there tends to be a trickle-down effect as investors lock in large-cap profits and look for opportunities further down the capitalisation spectrum.

Performance: Long-term outperformance versus peers and the UK market

There are currently 21 funds in the AIC UK Smaller Companies sector. In Exhibit 3, we show RKW along with its five closest peers; one of which has a short-term track record. RKW's NAV total returns are considerably ahead of its peers' over the last three and five years, ranking first out of five funds in both periods. RKW lags its peers over the last 12 months, with an NAV total return that is 6.4pp below the sector average, but well ahead of relevant UK small-cap indices.

At 23 January 2026, RKW was trading at a modest premium, one of the two selected funds that were trading above NAV. The trust has the second-highest ongoing charge, and, like most of its peers, a performance fee is payable. In line with its peers, RKW has no gearing and, due to the focus on capital return, the trust does not pay regular dividends.

Looking at the complete AIC UK Smaller Companies sector, RKW's NAV total return is modestly below average over the last year. However, over the longer term, the trust's rankings are much higher, ranking third and first out of 19 over the last three and five years respectively.

Exhibit 3: Analysis of UK Smaller Companies sector at 23 January 2026

% unless stated	Market cap (£m)	NAV TR 1Y	NAV TR 3Y	NAV TR 5Y	Premium/discount	Ongoing charge	Performance fee	Net gearing	Dividend yield
Rockwood Strategic	159.7	10.1	51.1	263.6	2.3	1.8	Yes	100	0.0
Odyssean Investment Trust	235.4	15.4	0.7	29.8	(2.2)	1.5	Yes	100	0.0
Onward Opportunities	42.7	10.5			2.3	3.0	Yes	100	0.0
Rights & Issues Inv Trust	98.7	10.1	20.1	21.6	(23.6)	0.9	No	100	2.1
River UK Micro Cap	79.1	30.8	50.6	8.6	(15.4)	1.7	Yes	100	0.0
Strategic Equity Capital	143.7	22.2	37.0	53.4	(9.7)	1.3	Yes	100	1.1
Average of selected funds	**126.6**	**16.5**	**31.9**	**75.4**	**(7.7)**	**1.7**		**100**	**0.5**
Rank	**2**	**5**	**1**	**1**	**1**	**2**		**1**	**3**
Number of funds	**6**	**6**	**5**	**5**	**6**	**6**		**6**	**6**
Average of whole sector	**241.6**	**10.9**	**23.7**	**37.2**	**(14.5)**	**1.3**		**105**	**2.5**
Rank	**8**	**11**	**3**	**1**	**1**	**4**		**9**	**14**
Number of funds	**21**	**21**	**19**	**19**	**21**	**18**		**21**	**21**

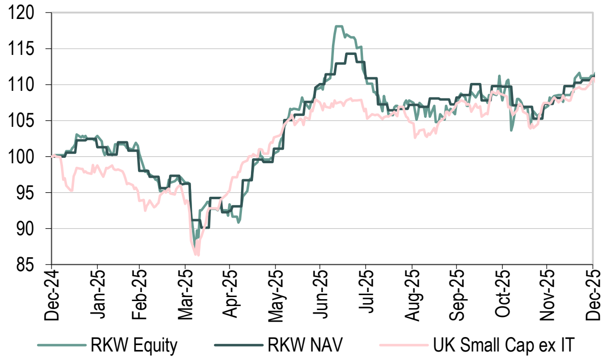
Source: Morningstar, Edison Investment Research. Note: TR, total return. Performance at 23 January 2026.

Exhibit 4: Five-year discrete total returns

12 months ending	Total share price return (%)	Total NAV return (%)	UK Small Cap ex IT (%)	UK Aim All-Share (%)	UK All-Share (%)
31/12/21	3.2	34.3	31.3	6.1	18.3
31/12/22	22.8	12.3	(17.3)	(30.7)	0.3
31/12/23	18.8	14.0	10.4	(6.4)	7.9
31/12/24	28.3	25.7	13.8	(3.9)	9.5
31/12/25	11.2	11.0	10.9	8.5	24.0

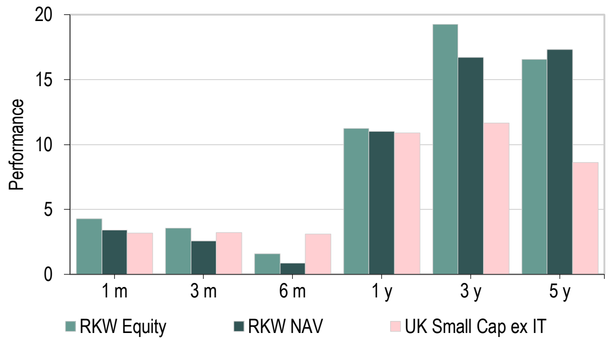
Source: LSEG Data & Analytics

Exhibit 5: Rebased one-year total return performance to end December 2025



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 6: Price, NAV and index total return performance to end December 2025 (%)



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three- and five-year figures are annualised.

Exhibit 7 shows RKW's relative returns. It has performed broadly in line with the UK Small Cap ex IT Index over the last 12 months but has outperformed over the last three and five years. The trust has performed even better versus the AIM market over the last three and five years; we note that more than half of the portfolio is listed on AIM. In 2025, there was increased appetite for UK equities, which outperformed the US market. Unsurprisingly, investors' first port of call was large-cap more liquid stocks. Typically, if higher demand for UK stocks continues, investors will start to look for opportunities further down the capitalisation curve.

Exhibit 7: Share price and NAV total return relative to indices (%)

	1 month	3 months	6 months	1 year	3 years	5 years
Price relative to UK Small Cap ex IT	1.1	0.3	(1.5)	0.3	21.8	42.2
NAV relative to UK Small Cap ex IT	0.2	(0.6)	(2.2)	0.1	14.2	47.0
Price relative to UK Aim All-Share	2.6	5.3	1.3	2.5	73.9	199.5
NAV relative to UK Aim All-Share	1.7	4.3	0.6	2.3	63.0	209.5
Price relative to UK All-Share	2.1	(2.7)	(10.7)	(10.3)	15.8	23.6
NAV relative to UK All-Share	1.2	(3.6)	(11.3)	(10.5)	8.5	27.7

Source: LSEG Data & Analytics, Edison Investment Research. Data to end December 2025. Geometric calculation.

Valuation: High investor demand enables ongoing share issuance

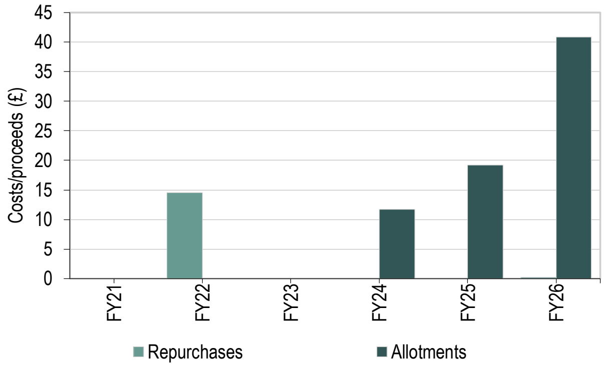
Over the last three years, RKW's shares traded in a range of an 8.5% discount to a 12.0% premium. The trust's current 2.3% premium compares to an average 1.5% premium over the last 12 months, a 0.9% premium over the last three years and a 3.2% discount over the last five years.

Since the end of 2023, RKW has regularly traded at a premium, which has enabled significant share issuance to satisfy investor demand and has been an important driver for increasing the size of the company. In FY25, c 7.5m shares (c 24.1% of the end-FY24 share base) were issued, raising c £19.0m. Exhibit 10 illustrates that the pace of share issuance has increased significantly. So far in FY26, c 14.6m shares have been issued (c 38.4% of the end-FY25 share base), raising c £40.9m. Greater scale is clearly better for fixed-cost absorption and dealing liquidity.

Exhibit 8: Discount to NAV, last three years (%)

Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 9: Share buyback and issuance



Source: Morningstar, Edison Investment Research

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