Rockwood Strategic

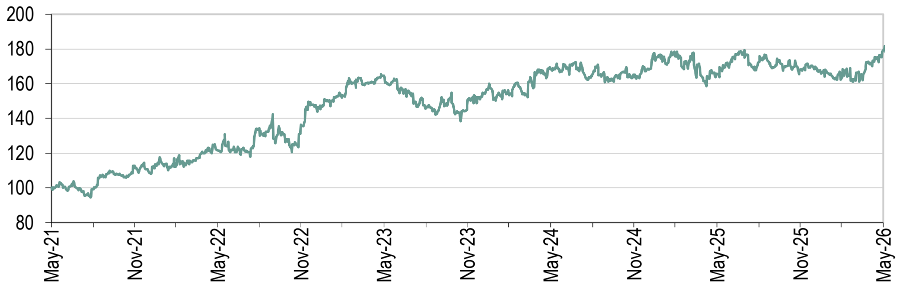
Strong returns from value-based strategy

Investment companies
UK small-cap equities

29 June 2026

Rockwood Strategic (RKW) has released its FY26 results, which showed positive NAV and share price total returns of 7.1% and 2.4% respectively for the year ending 31 March. RKW's manager, Richard Staveley at Harwood Capital, was disappointed in the trust's performance in the last month of the reporting period as markets fell following the US attack on Iran. In the first 11 months of FY26 RKW's NAV and share price total returns were approaching 20%. However, since the end of FY26, the trust has performed strongly and has returned to a premium rating. The manager remains very upbeat about RKW's prospects given he seeks opportunities in small-cap UK companies, where a lack of broad analytical coverage can lead to mispriced securities. Also, demand for UK equities has been focused on large-cap stocks, leaving smaller companies attractively valued in both absolute and relative terms.

Exhibit 1: NAV considerably ahead of UK small-cap stocks over last five years



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

Why consider RKW?

The manager remains bullish on the outlook for RKW's portfolio companies, in terms of visible catalysts that will unlock shareholder value. He has a value mindset and an intense free cash flow focus, seeking proven businesses with identifiable assets and mean reversion potential in terms of either profitability, balance sheet repair or a re-rating. Staveley identifies catalysts for change that he expects to occur within the next three to five years. He engages with stakeholders, which may itself be the catalyst, to de-risk the investment and increase shareholder value. The manager highlights the importance of avoiding value traps, which are companies that may look inexpensive, but are valued that way for a valid reason.

Staveley's value-based approach has proved very successful, with RKW outperforming the UK small-cap market over the last one, three and five years. The trust has also generated superior performance versus its peers in the AIC UK Smaller Companies sector – first of 17 funds over the last five years and second of 18 funds over the last three years.

The manager has 'skin in the game' with a greater than 1% holding in the trust (he added to his position during the March 2026 share price pull-back), while Harwood Capital owner Christopher Mills holds a further c 15% of RKW (voting is capped at 10% to avoid conflicts). The trust regularly trades at a premium and issues new shares. In FY26, 17.3m shares were issued, which was a significant 44.5% increase in RKW's share base.

Price		**309.00p**
Market cap		**£181m**
Total assets		**£181m**
NAV		308.7p
[1]NAV at 19 June 2026.		
Discount to NAV		0.1%
[1]Premium to NAV.		
Current yield		0.0%
Shares in issue		58.6m
Code/ISIN		RKW/GB00BRRD5L66
Primary exchange		LSE
AIC sector		UK Smaller Companies
Financial year end		31 March
52-week high/low	324.0p	256.0p
NAV high/low	317.0p	262.4p
Net gearing		0.0%
[1]Net gearing at 31 May 2026.		

Fund objective

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

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: Differentiated value, rather than growth-based strategy

While the majority of UK small-cap investment trusts employ growth strategies, RKW offers investors a concentrated portfolio of stocks that are trading below their intrinsic value, with identifiable catalysts to enable that value to be realised. Staveley aims to generate additional alpha by active engagement with investee companies. He targets an annual 15% internal rate of return (IRR) on investment over the long term, which is equivalent to a 2x return over a five-year period. There is no formal benchmark and the manager seeks positive returns in all market environments.

FY26 highlights (ending 31 March 2026)

Over a decade ago, the board determined that portfolio stocks should 'predominantly' be below a £250m market cap at the time of purchase. Given inflation and stock market evolution, there is increased flexibility to allow the manager to invest, with the 'majority' of stocks below £250m when they enter the portfolio.

- Performance – RKW's NAV and share price total returns of 7.1% and 2.4% compared with the AIM All-Share Index and UK Small Cap (ex-ITs) Index total returns of 5.1% and 8.9% respectively. The trust's 12-month results were negatively affected by market weakness and valuation compression following the US strikes on Iran.
- Share issuance – the size of the trust has increased considerably due to its premium valuation leading to regular share issuance. This process takes careful management given the strategy of running a concentrated portfolio of relatively illiquid stocks. During FY26, c 17.3m shares were issued, which increased the share count by c 45%. The board may propose a soft closing of the fund at £250m assets, which suggests a c 40% increase in the fund size until the strategy encounters liquidity issues.
- Dividends – until RKW has achieved greater scale, it will retain as much capital as possible to maximise the benefit of compounding NAV growth. During FY26, modest income was less than the trust's running expenses, so no dividend was declared.
- The board – Ken Lever will step down at the 28 July 2026 AGM, having served on RKW's board for 10 and a half years; Paul Dudley will become chair of the audit committee. Sangita Shah joined the board as a non-executive director on 1 April 2026. She is currently the non-executive chair of the Quoted Companies Alliance, interim chair of Big Technologies and senior independent director of Nasdaq-listed Forward Industries, and was senior independent non-executive director and chair of the remuneration committee of Treatt.

Staveley's perspectives on the investment backdrop

RKW's performance is a result of stock picking rather than the manager taking a view on the macroeconomic backdrop, although top-down factors do influence operational performance of portfolio companies. Despite an uncertain environment, exacerbated by the Middle East conflict, Staveley is encouraged by the Q126 reporting season, where most portfolio companies are making good progress, and he is actively engaging with businesses that are performing below expectations.

The manager believes that AI poses limited risk to RKW's portfolio given that: 1) it has direct/indirect content creation exposure that should not be displaced by AI, such as M&C Saatchi and Videndum; 2) companies with software-enabled products have already integrated AI or have sufficiently wide moats, maybe due to regulatory or relationship reasons, such as RM and Funding Circle; and 3) the risk of AI-led cybercrime is well-known, and all investee companies have assessed cyber risks in their annual reports. The manager highlights Capita as a particular AI beneficiary due to public-sector service inefficiencies.

Staveley's frustration is evident when discussing the UK stock market, given its declining relevance on the global stage due to a lack of IPOs and a steady stream of takeovers. However, despite this trend and the continued weakness in the smaller-cap AIM market, UK large-cap companies are a different story, with the top 100 UK company index outpacing the US S&P 500 for the last two years. For UK smaller-cap companies to keep up with UK large-cap businesses the manager believes there needs to be a change in government policy – Staveley advocates ISA tax relief for UK-listed shares only, which he believes would breathe life into the UK stock market, while supporting UK businesses and the wider economy.

Notwithstanding the lack of government support, the manager has an optimistic view about UK small-cap stocks. Over the long term they have outperformed shares of large-cap companies by a considerable margin, with recent weakness serving to increase the valuation appeal of some of the UK's smaller listed businesses. Pension fund allocations to UK equities are already below the modest low single-digit weighting in global indices and the UK economic optimism index is at its lowest level since 1989; very high levels of pessimism generally indicate a good buying opportunity. Meanwhile, households and non-financial corporates are under-geared and there is potential for interest rates to resume their downward path once the inflationary effects of the war in Iran have washed through the system. Lower interest rates should be an important catalyst for an improved performance of UK small-cap stocks in particular. Signs of political stability may also lead to increased interest in the UK market. While large-cap stocks tend to be the first port of call for global investors, sustained demand should lead to opportunities being sought further down the capitalisation spectrum.

RKW's portfolio

Each year, three or four new companies that can benefit from operational, strategic or management changes are added to the portfolio, which allows Staveley plenty of time for due diligence before investing. He can draw on the resources of an investment advisory group 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 of a company and can improve shareholder outcomes. Harwood Capital has representation on, or has successfully proposed appointments to, several of RKW's investee companies' boards.

At the end of FY26, RKW had 25 holdings, of which 12 had net cash on the balance sheet, illustrating the focus on quality companies. The top 10 holdings made up 62.2% of the portfolio, which was not dissimilar from 63.1% a year earlier; eight positions were common to both periods. There were four new additions to the portfolio in FY26, which we cover below. These made up 10.3% of the trust's NAV at the end of the reporting period.

Given the attractive valuations available in the UK market, Staveley expects an acceleration in takeover activity; essentially, if the market does not value companies correctly, then acquirers will. During FY26, National World was taken over having delivered a 70.5% IRR and a 1.65x money multiple. There have also been two recent takeovers of portfolio companies, which we highlight in the Performance section.

Exhibit 2: RKW's top 10 holdings at 31 March 2026

Company	Sector	End of FY26	End of FY25
RM	Education services	9.6	13.9
Vanquis Banking Group	Financial services	7.5	6.0
Capita	Business services	7.1	4.0
Videndum	Media equipment	6.0	N/A
Funding Circle	Financial services	5.8	4.6
Filtronic	Technology	5.6	9.4
Capital	Mining Services	5.5	N/A
M&C Saatchi	Media & entertainment	5.4	5.2
James Fisher & Sons	Industrial services	4.9	4.8
Restore	Business services	4.8	4.8
Top 10		**62.2**	**63.1**

Source: RKW, Edison Investment Research. Note: N/A where not in end of FY25 top 10.

The manager focuses on Capita, which is one of RKW's top 10 holdings and an interesting example of a turnaround situation. The company was formerly one of the largest 100 UK companies but fell out of favour with investors. Capita now has a new senior management team working to improve operating margins from c 4.5% to 6–8%. The company has two divisions: one focused on the public sector as the administrator of a range of services such as the Congestion Charge, the Student Loan Company and the TV Licence; and the other on the private sector with a loss-making contact centre business and a profitable pensions business. Recent results showed the public sector division is back on track, helped by cost-cutting and the use of enhanced AI in its new business. Importantly, Capita announced the exits of its loss-making legacy Life & Pensions contract and contact centre operations. This marks the bulk of the company's turnaround, resulting in more focused operations, a stabilised balance sheet and higher profitability, which should lead to a significant increase in free cash flow and Capita receiving a higher valuation.

Portfolio activity

Staveley considers that each of the four new FY26 positions has at least 100% upside:

- **Treatt** is a global manufacturer and supplier of natural extracts and ingredients for the food, beverage, fragrance and consumer goods markets. Profitability is below historical levels and the company has received multiple takeover bids. Treatt has agreed to a 305p per share bid from Dohler Group, which is a German privately-owned food and drink ingredient specialist. The acquisition was at a 48% premium to the pre-bid share price.
- **Eagle Eye Solutions Group** is a leading loyalty and software promotions provider for consumer-facing retail and leisure businesses. Its customers include Tesco, Asda and Morrisons in the UK, Loblaws in Canada, E.LeClerc in France and Woolworths in Australia. The company has used AI to drive its personalisation offering and has a joint venture with SAP, which should lead to an increase in contract sales. A rare contract loss provided RKW with an opportunity to invest in Eagle Eye, whose growth prospects are underestimated, according to the manager.
- **Tribal** is a global educational software provider with operations in 55 countries. The company has streamlined its business and can now offer cloud and subscription-based services. Operations have been challenged by significant capex and some contract issues, but profitability is improving. Staveley expects Tribal's shares to re-rate or the company to attract bid interest.
- **Focusrite** designs and manufactures high-end audio products; its portfolio of 13 brands is known for its quality and product development. The company grows organically and via acquisitions. Focusrite had a tough time during the global pandemic and its founder, who is a major shareholder, has passed the chair on to a highly regarded individual, who is expected to rationalise the business, improve profitability and re-accelerate growth.

During FY26, there were four complete portfolio exits: **Galliford Try** is particularly interesting as the company was added to the portfolio in May 2022 when it was trading at a lower valuation than the amount of net cash on its balance sheet. The manager engaged with the company and influenced its dividend policy, the investment was sold having delivered a 48.2% IRR and a 1.4x money multiple. **National World** was taken over, delivering RKW a 70.5% IRR and a 1.7x money multiple. Less successful investments were: **Bonhill**, a small media business, which had a -4.6% realised IRR due to ineffective management and tough market conditions; and **Argentex**, which was only the second of RKW's investments to be written down to zero. The company had repeatedly said that it was purely an agent and did not take on principal fx risk, which proved to be untrue.

RKW has a new holding in **Stelrad Group**, which is the leading UK manufacturer of central heating radiators; its CEO has a £15m investment in the company. Stelrad's business is broadly split 50:50 between Europe and a depressed UK market, where a 1.4bn installed base offers a very large replacement opportunity. The company has expanded its margins over the last few years, increasing average profit per radiator from £10.50 to £20.50. Staveley believes that Stelrad can generate significantly higher profits once the UK market improves. The company generates a high return on capital and is not overleveraged. Staveley notes that Stelrad is RKW's first UK domestic cyclical business in quite a while; he does not believe that the company's business will come under competitive threat from underfloor heating, which is not increasing market share, while an increase in heat pumps should benefit Stelrad as they require larger, more profitable radiators.

Performance: Ahead of the peers as well as the market

The AIC UK Smaller Companies sector has 19 funds following a variety of strategies. To enable a more relevant comparison, in Exhibit 3 we highlight RKW along with its five closest peers; the newest fund, Onward Opportunities, has now attained a three-year track record. RKW has retained its position as the best performing company in terms of NAV total returns in the selected peer group over the last three and five years. However, compared to when we published our last RKW update note in January 2026, the trust's 12-month rank has improved from fifth to third, and it now has an above-average NAV total return over this period. At 26 June 2026, RKW had the second-highest valuation within the selected peer group and was the only company trading at a premium. The trust has the third-highest ongoing charge, and, like most of its peers, a performance fee is payable. Currently, none of the peers are geared. RKW does not pay regular dividends as it seeks to maximise capital return.

Looking at the complete AIC UK Smaller Companies sector, RKW's NAV total return ranks fifth of 19 over the past 12 months, but is a notable second of 18 over the last three years and first out of 17 over the last five years.

Exhibit 3: Analysis of AIC UK Smaller Companies sector at 26 June 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	180.0	10.9	56.2	316.8	0.1	1.6	Yes	100	0.0
Odyssean Investment Trust	289.3	26.5	34.7	34.1	(0.2)	1.5	Yes	100	0.0
Onward Opportunities	41.6	(4.9)	26.1		2.7	3.0	Yes	100	0.0
Rights & Issues Inv Trust	103.5	6.2	19.8	5.5	(19.2)	1.0	No	100	2.0
River UK Micro Cap	74.7	18.0	52.9	(16.2)	(15.5)	1.7	Yes	100	0.0
Strategic Equity Capital	125.5	(0.4)	16.6	13.2	(1.9)	1.3	Yes	100	1.1
Average of selected funds	**135.8**	**9.4**	**34.4**	**70.7**	**(5.7)**	**1.7**		**100**	**0.5**
Rank	**2**	**3**	**1**	**1**	**2**	**3**		**2**	**3**
Number of funds	**6**	**6**	**6**	**5**	**6**	**6**		**6**	**6**
Average of whole sector	**239.7**	**5.9**	**25.5**	**20.4**	**(12.6)**	**1.5**		**105**	**2.3**
Rank	**7**	**5**	**2**	**1**	**2**	**6**		**9**	**12**
Number of funds	**19**	**19**	**18**	**17**	**19**	**18**		**19**	**19**

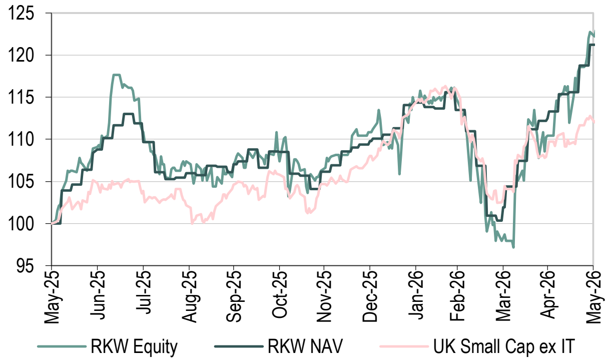
Source: Morningstar, Edison Investment Research. Note: TR, total return.

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 (%)
31/05/22	(4.1)	14.0	(6.4)	(21.5)	8.3
31/05/23	46.4	23.4	(8.7)	(18.5)	0.4
31/05/24	32.2	23.9	20.9	5.0	15.4
31/05/25	(2.5)	4.5	6.3	(5.5)	9.4
31/05/26	22.8	21.2	12.8	11.9	21.6

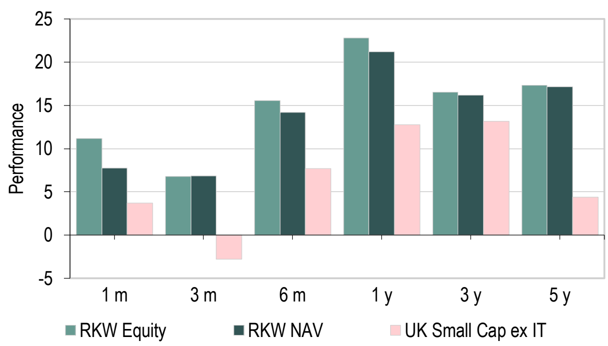
Source: LSEG Data & Analytics

Exhibit 5: Rebased one-year share price, NAV and index total return performance



Source: LSEG Data & Analytics, Edison Investment Research. Note: At 31 May 2026.

Exhibit 6: Price, NAV and index total return performance to end May 2026 (%)



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

RKW's relative returns are shown in Exhibit 7. These numbers suggest that the trust has more than made up for the period of relative weakness in March 2026, following the US strikes on Iran. RKW's relative record is commendable, with NAV and share price outperformance versus the two small-cap indices across all periods shown in Exhibit 7. The trust has also performed well versus larger-cap shares despite large-cap market leadership in recent years.

Performance has been encouraging so far this year. Significant positive contributors include Van Elle, which was taken over at a 59% premium and a 12% IRR (purchased in Q120), and Treatt, another takeover, which was at a 48% premium and a 52% IRR (a relatively recent purchase in Q325). Since purchase, Filtronic's share price has risen by more than 30 times and the company has recently raised its earnings guidance again. Filtronic's valuation is no longer attractive, so Staveley has been taking profits. A recent addition to the portfolio, Eagle Eye Solutions Group's share price is up by around 45% in Q226.

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	7.2	9.9	7.3	8.9	9.2	79.2
NAV relative to UK Small Cap ex IT	3.9	9.9	6.0	7.5	8.3	78.3
Price relative to UK Aim All-Share	7.3	6.1	5.4	9.7	42.5	212.5
NAV relative to UK Aim All-Share	4.0	6.2	4.2	8.4	41.4	210.9
Price relative to UK All-Share	9.9	10.0	6.2	0.9	3.0	33.0
NAV relative to UK All-Share	6.5	10.1	5.0	(0.3)	2.2	32.3

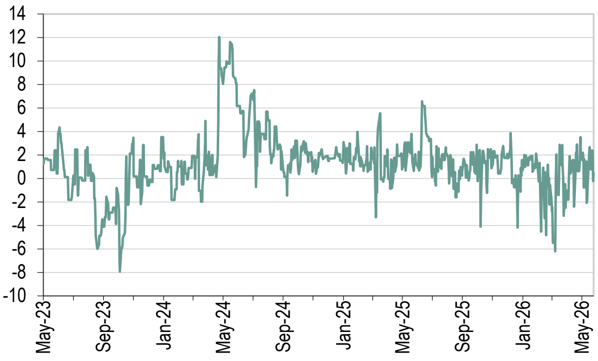
Source: LSEG Data & Analytics, Edison Investment Research. Data to end May 2026. Geometric calculation.

Valuation: Regular premium means significant share issuance

Exhibit 8 shows that over the last three years, RKW's shares traded in a range from a 12% premium to a 7.9% discount. The current 0.1% premium is lower than the average premiums of 1.0% and 1.3% over the last one and three years respectively, and is a higher valuation compared with an average 2.5% discount over the last five years.

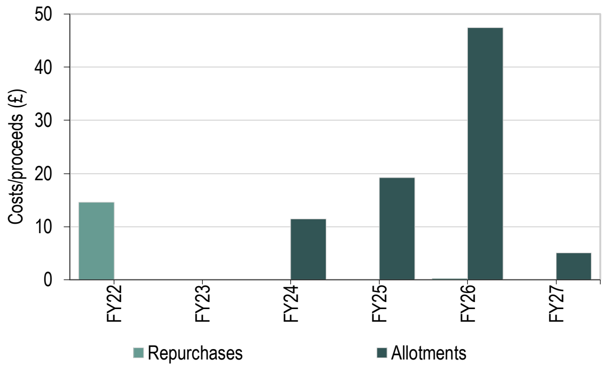
RKW's frequent premium valuation since the end of 2023 has enabled a significant amount of share issuance to satisfy investor demand, which has been an important part of the company's growth. In FY26, the share count increased by around 45%, raising close to £50m. With greater scale there is better fixed cost absorption and increased liquidity in the trust's shares.

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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