

## PERFORMANCE SUMMARY

	1 MONTH	3 MONTHS	1 YEAR	4 YEARS p.a.	5 YEARS p.a.	INCEPTION p.a.
SSCF <sup>1</sup>	-7.6%	-5.0%	8.6%	7.0% <sup>1</sup>	6.5% <sup>1</sup>	7.1% <sup>1</sup>
Benchmark <sup>2</sup>	-4.7%	-2.9%	3.7%	-1.6%	-1.1%	-1.0%
<b>Value Added</b>	<b>-2.9%</b>	<b>-2.1%</b>	<b>4.9%</b>	<b>8.6%</b>	<b>7.6%</b>	<b>8.1%</b>

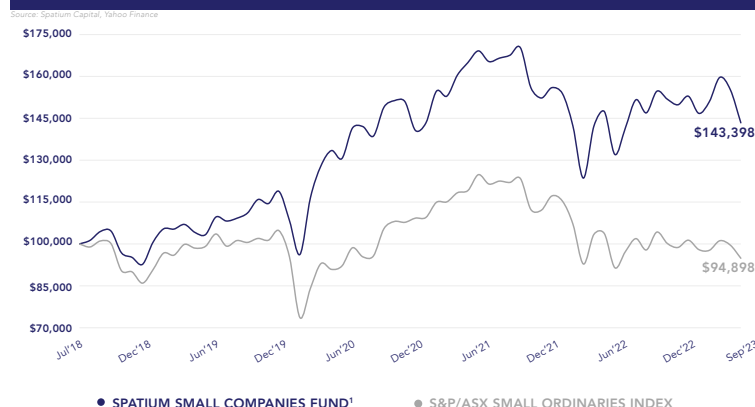
## MONTHLY CONTRIBUTORS & DETRACTORS

IGO Ltd (IGO)	0.2%
Auckland International Airport (AIA)	0.1%
Ramsay Health Care Ltd (RHC)	0.1%
Alumina Ltd (AWC)	(0.6%)
Qantas Airways Ltd (QAN)	(0.7%)
Chalice Mining Ltd (CHN)	(2.0%)

<sup>1</sup>The SSCF is a composite calculation of the SMA's inception (1 July 2018), through to the Fund's inception and is net of fees, before tax, and assumes reinvestment of distributions. Past performance is not an indicator of future performance.

<sup>2</sup>Benchmark is the S&P/ASX Small Ordinaries Index.

## PERFORMANCE GRAPH



## 'You measure yourself by the people who measure themselves by you.'<sup>3</sup>

A few years back, we were presenting the Spatium Small Companies Fund (the Fund) to a wealth group. At the time, interest rates were still astonishingly low and the now former RBA Governor Phillip Lowe maintained that rates wouldn't be increased for some time. One of the wealth group executives challenged us that the only reason the Fund had been able to perform so strongly over the period was a result of low interest rates because traditionally, stocks and interest rates have an inverse relationship. When one is moving up, the other is trending down and vice versa.

As many readers will be aware, a low interest rate environment results in accommodating monetary policy that provides minimal borrowing costs. Put another way, if you're a business who's looking to capture market share or are some years away from generating substantial revenues, a low-cost borrowing environment might help your business achieve either (or both) strategy – as long as you can service the low-cost interest repayments on the debt in the interim. This climate reduces the 'hurdle cost' to initiate projects and incentivises management to use debt to finance these projects which have a lower cost (or return hurdle) than would be required on the firm's own equity holdings or traditionally more expensive debt. In this climate, there is often the expectation that smaller companies in listed markets can earn outsized returns because these businesses are able to get their name out into the marketplace and acquire market share, compared with the larger end of town, who may have already saturated their market share or be fully understood by their market, and therefore have less room to grow.

Naturally, as interest rates have risen and cheaper debt opportunities have evaporated, listed businesses have had to rethink their strategies as the hurdle rate for given (or existing) projects has climbed higher. A higher interest rate environment can bring higher volatility which can offer dislocations to investors that are looking to exploit the uncertainty. Further, stock prices often become compressed as the present value of these future cash flows decreases. Should one have a view that interest rates will decline in the future, this period of time can present an investor with an opportunity to purchase these businesses at a discount.

In these evolving scenarios, a dynamic yet rigid investment strategy are essential. To clarify, we strongly discourage any investor from style drift (for more on this, see [June 2023's newsletter](#)) – an approach whereby a fund manager will diverge from their investment style or objective. Rather, a clear investment mandate that seeks to exploit broad market conditions as they evolve is crucial to success.

So what was our response to the aforementioned wealth group executive – we have historically benefitted from volatility, despite the interest rate or geopolitical environment. In our recent letter to investors for FY2023, we highlighted how six key investment principles combined throughout the financial year to provide a considerable tailwind to the Fund. Without unpacking each principle, volatility was one thematic that was particularly amplified through FY2023 that is coincidentally also one of the outcomes of a higher interest rate environment (recall that the RBA first increased interest rates in May 2022). Incidentally, as the RBA has continued to drive up rates and increase pressure on the cost of living, the Fund delivered +22.2% against the benchmark's +5.3% for FY2023, and has outperformed by +11.0% from May 2022 (when the RBA commenced raising rates) to the end of September 2023. Despite the headwinds that have faced small caps, we believe this interest rate climate has positioned the Fund (and segment) into a commanding position as interest rates are cut at some point in future.

The reason Spatium Capital has been able to succeed in both low and high interest rate environments is because in both of these climates, fear and greed exist. There has always been a thematic, macro influence, indecisive central bank or geopolitical risk that has impacted current market sentiment *irrespective* of interest rates. With our quantitative strategy calibrated to exploiting volatility (an outcome of fear and greed) we are less concerned about the state of interest rates and more about the flows of money within markets. However, that topic is for another newsletter. Next month we'll explore further as to how we exploit volatility for the benefit of the Fund. The SSCF returned -7.6% against -4.7% for the benchmark, with the US & UK providing -6.1% and 0.2% respectively.

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## FUND CHARACTERISTICS

UNIT PRICE (AS AT 31 SEPTEMBER 2023)	\$0.97
FY2023 DISTRIBUTION YIELD <sup>4</sup>	2.6%
FY2022 DISTRIBUTION YIELD	Nil
FY2021 DISTRIBUTION YIELD <sup>5</sup>	12.9%
FY2020 DISTRIBUTION YIELD <sup>6</sup>	16.5%
SUGGESTED TIMEFRAME	5 to 7+ years
STRUCTURE	Open-Ended Fund
SUBSCRIPTIONS/REDEMPTIONS	Monthly
DISTRIBUTIONS	Annually
STRATEGY INCEPTION <sup>1</sup>	1 July 2018
MANAGEMENT FEE <sup>7</sup>	1.25% per annum

## OTHER KEY METRICS OF INVESTMENT STRATEGY

	SSCF <sup>1</sup>	MARKET
Average monthly return	0.7%	0.1%
Beta	0.89	1.00
Portfolio variance	6.0%	6.0%
Up-Market capture ratio	102.9%	100.0%
Down-Market capture ratio	72.4%	100.0%

## RESEARCH & RATINGS

ORGANISATION	RATING
SQM Research (REPORT AVAILABLE ON REQUEST)	Acceptable
FE Fund Info	<a href="#">5 Crowns</a>

## PLATFORMS



AVAILABLE ON  
[HUB24.COM.AU](https://HUB24.COM.AU)

## FIND OUT MORE

The Fund currently remains open to new investors.

To set up a time to discuss with one of our team, please email us at [contact@spatiumcapital.com](mailto:contact@spatiumcapital.com)

## RECOGNITION



<sup>3</sup>Knight, P., 2016. *Shoe Dog: A Memoir by the Creator of Nike*. 1st ed. London: Simon & Schuster UK Ltd.

<sup>4</sup>On the 30 June 2023 pre-distribution unit price of \$1.05, the Fund distributed \$0.03 per issued unit; equivalent to a 2.6% distribution yield.

<sup>5</sup>On the 30 June 2021 pre-distribution unit price of \$1.28, the Fund distributed \$0.16 per issued unit; equivalent to a 12.9% distribution yield.

<sup>6</sup>On the 30 June 2020 pre-distribution unit price of \$1.27, the Fund distributed \$0.21 per issued unit; equivalent to a 16.5% distribution yield.

<sup>7</sup>Other fees and expenses apply. Please refer to the Information Memorandum of the Fund for further details.

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