SPATIUM SMALL COMPANIES FUND (SSCF)

MARCH 2024 NEWSLETTER

APIR CODE: VIL2854AU **ISIN:** AU60VIL28541

Favourable
SQM RESEARCH
CONSIDER FOR APL INCLUSION

PERFORMANCE SUMMARY

	1 MONTH	3 MONTHS	1 YEAR	4 YEARS p.a.	5 YEARS p.a.	INCEPTION
SSCF[1]	7.0%	3.5%	2.0%	12.3%	7.7%[1]	52.9%[1]
Benchmark[2]	4.2%	6.6%	10.6%	10.4%	2.6%	9.3%
Value Added	**2.8%**	**-3.1%**	**-8.6%**	**1.9%**	**5.1%**	**43.6%**

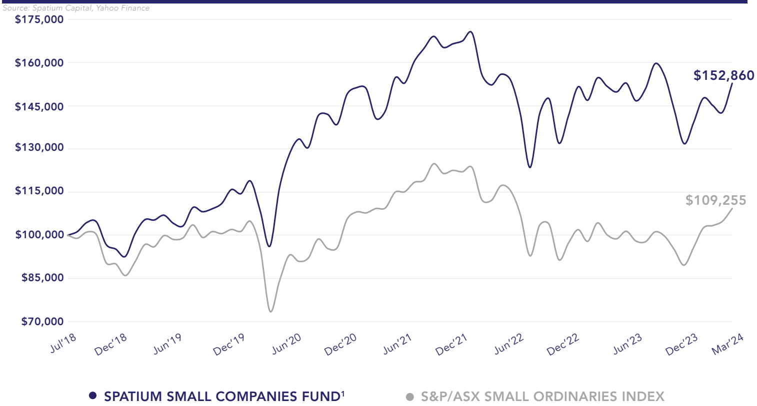
MONTHLY CONTRIBUTORS & DETRACTORS

Ramelius Resources Ltd (RMS)	1.0%
Evolution Mining Ltd (EVN)	0.9%
Strike Energy Ltd (STX)	0.7%
TPG Telecom Ltd (TPG)	(0.2%)
Kelsian Group Ltd (KLS)	(0.2%)
Coronado Global Resources Inc (CRN)	(0.2%)

[1]*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.*

[2]*Benchmark is the S&P/ASX Small Ordinaries Index.*

PERFORMANCE GRAPH



'It is better to be vaguely right than exactly wrong.'[3]

Forecasts, predictions and guesstimates have been a frequent and favourite topic of ours here at Spatium Capital. As unashamed quants, forecasts might as well be our third love behind markets and statistics. Whilst fascinating to us, they don't however make for the most intriguing regular discussions (contrary to the old adage, we're actually fun to be around at parties) or newsletter topics. That said, we would be remiss not to take comfort in the February newsletter email body whereby we noted the short-term challenges of the Fund and our correlation to volatility. In that summary we noted how our recent challenges had been mired by the dissipating volatility of some -1.6%, despite the seemingly obvious instability in markets. We concluded that paragraph by noting how volatility had seemingly returned in March, up some +14.1% between the commencement and 12th of the month. The inherent danger with making these calls is that a month is a long-time and trends in markets can be reversed almost as quickly as they had begun.

It so happened that by highlighting this pulse in volatility, we had walked head-on into the very danger we were seeking to avoid, because from the 12th to the end of March, the ASX VIX (ASX: XVI) retreated -21.9%, finishing the month lower than it had begun. The good news is the Fund capitalised on the brief price dislocations and returned **+7.0%** vs 4.2% for the benchmark. This is a promising sign that when volatility returns, even in its most brief format, our approach remains sound in being able to acquire companies that have drifted from their expected price. The question however, remains; when will we see the resurgence of ASX volatility?

Discussions about volatility or the VIX, especially in relation to the stock market, often err on the side of irrelevance. That is not to discredit anyone who quotes the VIX in conversation, rather the VIX's lack of relevance is a by-product of the traditional means in which participants engage with the stock market. Put another way, because the majority are choosing to hold companies for 12+ months, the daily, monthly or even quarterly volatility swings can end up not being particularly relevant for this style of investor. As an aside - this lack of attention on volatility consequently provides Spatium with an almost greenfield view of value to be captured. Simply put, because most other participants are not looking at the VIX regularly, we are often rewarded by moving ever so slightly against the herd.

One of the other more obvious reasons why the VIX is used less as a proxy for uncertainty in the local stock market is largely because of its underlying composition. Firstly, the S&P/ASX300 factsheet shows that almost 30% of the ASX300 is dominated by financials companies, most of which include the Big4 retail banks + Macquarie Group. By comparison, the equivalent S&P500 factsheet shows that almost 30% of their market is composed of technology companies, many of which would be recognisable household names such as Meta (Facebook), Microsoft, Alphabet (Google) and Apple.

Now if we take the volatility profiles of Australian-financials vs US-tech, it is evidently clear that the outcome will vary greatly. For a raft of regulatory and political reasons, the Australian banking system is one of the most stable in the world; this leads to very robust companies that are often extremely risk averse, especially given the high exposure to residential mortgages. Comparatively to the US, technology companies often take outsized risks to unlock new efficiencies or trends. So what we are left with (broadly speaking) is one market who's overall exposure to volatility is muted (ASX) and the other which is often more responsive (S&P500).

There is a far more detailed and comprehensive discussion to be had here, but the point remains valid: when each market's dominant sector is more or less volatile, the cascading impact throughout the market will differ considerably. In conclusion, this is why we often observe the ASX VIX to have less bearing on Australian market discussions. But as mentioned above, this becomes our opportunity set.

For the month of March the Fund returned **+7.0%** vs 4.2% for the benchmark. Elsewhere the US and UK smalls segments delivered 3.0% and 2.1% respectively.

FUND CHARACTERISTICS

UNIT PRICE (AS AT 31 MARCH 2024)	$1.03
FY2023 DISTRIBUTION YIELD[5]	2.6%
FY2022 DISTRIBUTION YIELD	Nil
FY2021 DISTRIBUTION YIELD[6]	12.9%
FY2020 DISTRIBUTION YIELD[7]	16.5%
SUGGESTED TIMEFRAME	5 to 7+ years
STRUCTURE	Open-Ended Fund
SUBSCRIPTIONS/REDEMPTIONS	Monthly
DISTRIBUTIONS	Annually
STRATEGY INCEPTION[1]	1 July 2018
MANAGEMENT FEE[8]	1.25% per annum

OTHER KEY METRICS OF INVESTMENT STRATEGY

	SSCF[1]	MARKET
Average monthly return	0.8%	0.3%
Beta	0.90	1.00
Portfolio variance	5.9%	5.9%
Up-Market capture ratio	99.0%	100.0%
Down-Market capture ratio	75.4%	100.0%

RESEARCH & RATINGS

ORGANISATION	RATING
SQM Research (REPORT AVAILABLE ON REQUEST)	Favourable
FE Fund Info	5 Crowns

PLATFORMS

HUB24

AVAILABLE ON
HUB24.COM.AU

FIND OUT MORE

The Fund is open to new investors.
To set up a time to discuss with one of our team, please email us at contact@spatiumcapital.com

RECOGNITION

[3]Read, C., 1898. Logic: Deductive and Inductive. 1 ed. London: Grant Richards.
[4]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.
[5]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.
[6]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.
[7]Other fees and expenses apply. Please refer to the Information Memorandum of the Fund for further details.