spatium capital

spatiumcapital.com

# SPATIUM SMALL COMPANIES FUND (SSCF)

AUGUST 2022 NEWSLETTER

**APIR CODE:** VIL2854AU **ISIN:** AU60VIL28541

NOW AVAILABLE ON HUB24

HUB24.COM.AU

## PERFORMANCE SUMMARY

| | 1 MONTH | 3 MONTHS | 1 YEAR | 3 YEARS p.a. | 4 YEARS p.a. | INCEPTION p.a. |
|---|---|---|---|---|---|---|
| SSCF[1] | 3.7% | 3.6% | -12.9% | 10.9%[1] | 9.0%[1] | 9.8%[1] |
| Benchmark[2] | 0.3% | -3.2% | -16.9% | 1.5% | 0.6% | 0.9% |
| **Value Added** | **3.4%** | **6.8%** | **4.1%** | **9.4%** | **8.3%** | **8.9%** |

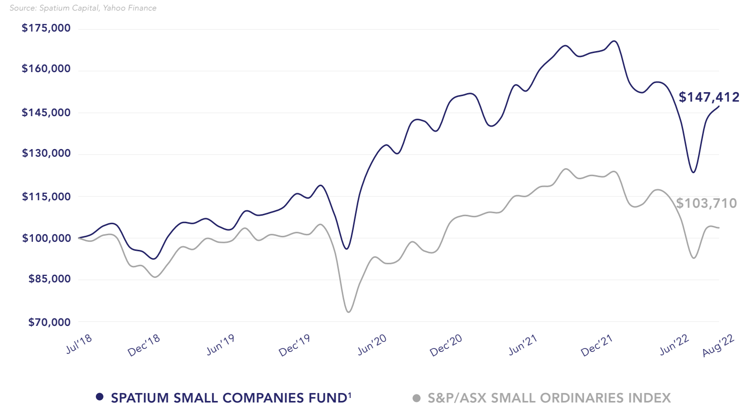
## MONTHLY CONTRIBUTORS & DETRACTORS

| | |
|---|---|
| Piedmont Lithium Inc (PLL) | 1.3% |
| OZ Minerals Ltd (OZL) | 0.9% |
| Pilbara Minerals Ltd (PLS) | 0.6% |
| Newcrest Mining Ltd (NCM) | (0.3%) |
| Smartgroup Corporation Ltd (SIQ) | (0.4%) |
| Ramelius Resources Ltd (RMS) | (0.7%) |

[1]*The Investment Strategy has been operational through a Separately Managed Account (SMA) arrangement from 1 July 2018. The presented information exhibits the continuity of returns from the SMA, which ceased to operate in March 2020, into the SSCF.*

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

## PERFORMANCE GRAPH




## 'Often the most unspectacular problems leads to a much bigger mystery - and sometimes they even provide the key to solving it.'[3]

August was panning out to be another solid month for Australian equities, indicating that the 6-month corrective episode since January 2022 in the Small Companies segment was, in fact, overkill. That was until Jerome Powell, Chairman of the US Federal Reserve made their position clear: they are committed to continue rate rises to moderate inflation. Naturally, as the Australian domestic market has recently preferred to live vicariously through the US, the ASX responded swiftly and met the hawkish end-of-month news from the US with an in-kind reply. For us, the question remains when the Australian market will recommence using our own domestic landscape as the proxy for market sentiment and future expectations. There is no doubt that the US plays a significant role in dictating the health of ours and the global economy – there's a reason why it has earned and retained its superpower status – however, recent trends have seemed to indicate that the ASX is more strongly correlated with US market momentum vs our own economic and corporate data. Especially given that the August earnings season was by no means calamitous, it was uncharacteristic for the intra month high for the Small Ordinaries to evaporate from as high as +4.4% to finish a meagre +0.3% up. Even so, **the Spatium Small Companies Fund had another strong month, returning +3.7% and beating the market by +3.4%.**

That said, it is increasingly difficult to ignore the current global macro environment. The energy crisis in Europe, fuelled (excuse the pun) by the ongoing Russian invasion of Ukraine, is about to reach a critical juncture as winter descends on the region. Anecdotal reports of German's stockpiling firewood for the upcoming winter are growing at such a rate, that the once anti-nuclear economy is now debating whether the closure of all the countries' reactors by the year end is such a good idea. Similar shifts to a pro-nuclear position are also beginning in Japan, which given the meltdown of the Fukushima plant in 2011, is a significant turnaround for the nation. Paired with the pressure of meeting the United Nation's greenhouse gas reduction target by the middle of the century, these and many other nations will likely look to reviving their dormant nuclear power plants in pursuit of greener and more 'independent' energy sources.

Further, sources are growing daily about the current state of the Chinese property market slowdown. Looking to the Shenzhen & Shanghai Stock Exchange, we are beginning to see this impact two of China's largest privately run banks. As of 31st August 2022, China Merchants Bank and Ping An Bank Co are down -28% and -23% respectively year-to-date. It appears the widespread defaults of Chinese property developers have finally tipped the financial 'domino' that is now affecting these two major lenders.

Whilst the Chinese property market slowdown is of particular interest to our iron ore exports, these two above scenarios are arguably an outcome of the marriage between the Russian invasion of Ukraine and the COVID-invoked Central Bank money printing. The outcome has resulted in a higher inflationary environment that few (if any) developed or developing economies can currently moderate. Whilst many economists contest that inflation has, or is about to, peak here in Australia at around 7.5% to 7.75%, Citigroup has recently forecasted[4] the UK is on track to rise above 18% in 2023 whilst the Bank of England (our Reserve Bank of Australia equivalent) is expecting 13% by the end of 2022. Despite money-printing easing in most pockets of the globe, an end to the Ukraine conflict occurs remains to be an unknown-unknown (at least to the vast majority of us in the West). As globalisation was scrutinised throughout the pandemic for helping spread COVID far and wide, the ideology continues to face challenges as the interdependence of nations for trade and commerce is clearly fracturing.

On a final thought for this month, we have been exploring the value of repetition, especially in the context of the financial markets. For our most avid readers, there will undoubtedly be statements we make that sound repetitive – for example, our pursuit of mispriced equities or our conviction towards consistently finding short-term opportunities – our value proposition is regularly on repeat. This however is not a mistake. A key component of our investment edge is through quantifying the emotions of fear and greed. Naturally the more participants there are in a market, the greater the influence of these two emotions – especially as passive money (i.e. ETF's) in-and-out flows have grown exponentially the last few years. With no foreseeable end for the amount of passive money coming into the market nor an end to the emotions of fear and greed, the repetitive nature of our investment strategy remains considerably robust. That said, we are not rigid in our thinking and always open to new ideas – reinforcing a specific set of beliefs in a world that has possibly changed, is likely going to have poor outcomes. The key to this balance is the difference between an investment manager who excels in most cycles vs one who does in few.

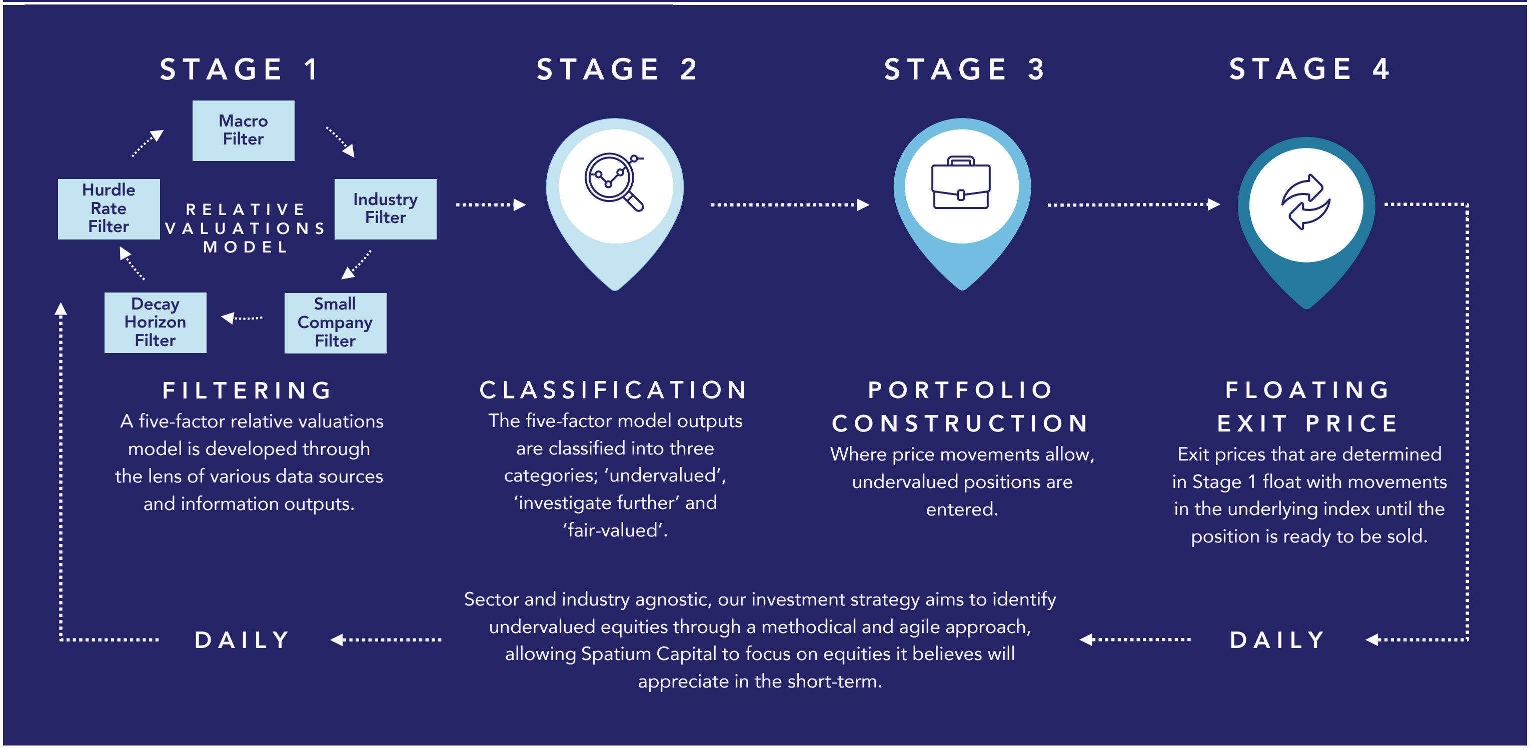
## FUND CHARACTERISTICS

| | |
|---|---|
| **UNIT PRICE** (AT 31 AUG. 2022) | $1.02 |
| **SUGGESTED TIMEFRAME** | 5 to 7+ years |
| **STRUCTURE** | Open-Ended Fund |
| **SUBSCRIPTIONS/REDEMPTIONS** | Monthly |
| **DISTRIBUTIONS** | Annually |
| **STRATEGY INCEPTION**[1] | 1 July 2018 |
| **MANAGEMENT FEE**[5] | 1.25% per annum |

## OTHER KEY METRICS OF INVESTMENT STRATEGY

| | SSCF[1] | MARKET |
|---|---|---|
| Average monthly return | 1.0% | 0.3% |
| Beta | 0.87 | 1.00 |
| Portfolio variance | 6.1% | 6.2% |
| Up-Market capture ratio | 100.3% | 100.0% |
| Down-Market capture ratio | 66.4% | 100.0% |

## INVESTMENT STRATEGY




## 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

[3]*Klein, S., 2015. We are all stardust. 1st ed. London: Scribe.*

[4]*A Philip, S. V. & Burden, L., 2022. Unions Could Ramp Up Pay Demands as UK Inflation Forecasts Rise. [Online] Available at: https://www.bloomberg.com/news/articles/2022-08-22/unions-could-ramp-up-pay-demands-as-uk-inflation-forecasts-rise#xj4y7vzkg?leadSource=uverify%20wall [Accessed 23 August 2022].*

[5]*Other fees and expenses apply. Please refer to the Information Memorandum for the SSCF for further details.*