

PERFORMANCE SUMMARY

	1 MONTH	3 MONTHS	1 YEAR	2 YEARS p.a.	3 YEARS p.a.	INCEPTION p.a.
SSCF Return ¹	2.4%	-8.4%	8.8%	27.3% ³	14.0% ³	12.6% ³
Benchmark ²	4.6%	-5.1%	7.0%	26.2%	6.9%	4.3%
Value Added	-2.1%	-3.3%	1.8%	1.2%	7.1%	8.3%

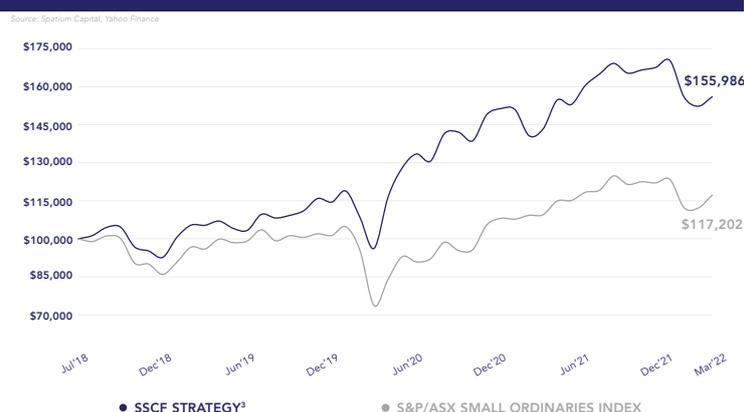
MONTHLY CONTRIBUTORS & DETRACTORS

Seek Ltd (SEK)	0.5%
Brickworks Ltd (BKW)	0.5%
Dominos Pizza Australia New Zealand Ltd (DMP)	0.4%
Fisher & Paykel Healthcare Corp (FPH)	(0.4%)
City Chic Collective Ltd (CCX)	(0.4%)
Telix Pharmaceuticals Ltd (TLX)	(0.6%)

¹The SSCF Return is a composite calculation³ of the SMA through the Fund's inception and is net of fees, before tax, and assumes reinvestment of distributions.

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

PERFORMANCE GRAPH



'If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring.'⁴

How easy is it to be misled by homo sapiens effortless and automatic decision-making? Further to this, how can we reflect and correct it for future decisions? In prior newsletters we've referenced the Nobel Laureate Daniel Kahneman and his well renowned work "Thinking, Fast and Slow". With our ongoing exploration into the field of behavioural finance, this month we take a deeper look into his System 1 and System 2 descriptions of our cognitive shortcuts.

Kahneman describes the System 1 part of our minds as fast, automatic, and effortless. The largely involuntary nature of System 1 means that this part of our thinking operates with ease; this is akin to blinking your eyelids (of course, when you're not thinking about it). System 1's instinctual nature has likely developed from our early homo sapiens era where fighting, fleeing, feeding and family dominated the cognitive airwaves. However, as knowledge, systems and science have evolved since, our System 1 responses have become less beneficial as they once were... despite the timeless adage to 'trust your gut'. To illustrate how our instinctual decision making has lost ground, Kahneman explains using the example of a world class chess player. An amateur chess players' System 1 response to an opponent's chess move is less likely to be the right one because they have not been part of a world (in this case, the professional chess world) for long enough to fine tune their System 1 to making better automatic decisions (in this case, chess moves). A world class chess player on the other hand has had years of meticulous study, training and exposure to the best chess-minds available. Their automatic cognitive response, by comparison to the amateur, is more likely to be instinctually correct as they have been exposed to the right environment that has allowed the relationship between their immediate decision (which chess piece to move) and the desired outcome to be fine-tuned.

So where System 1 is instinctual, System 2 functions as a controlled and deliberate thought process. Using the chess example above, whilst an amateur may initially need to spend a great deal of effort (System 2) assessing each of the consequences of their selected moves, the longer the amateur plays with a world class player and is exposed to that particular environment, the greater the propensity for them to correct for better System 1 responses in the future. The intended result for the amateur is to require less cognitive effort for standard chess moves in future whilst channelling more bandwidth towards complex strategies. Whilst this seems simple in theory, the reality is many of us apply System 1 decision making too freely without recognising that our instinctual responses may, in some circumstances, be misleading us; thereby, disregarding our ability to reflect

and correct these choices in the future. In this example, by the time the amateur has realised their mistake(s), it is too late to recover, albeit given it is a game of chess, we would expect very little harm is caused by the outcome. On the other hand, investing with a System 1 mindset is likely to have greater ramifications than an amateur losing a game of chess.

The last few years can feel like some of the toughest in recent memory. Longing for the 'good old days' of pre-COVID, pre-Russian conflict, pre-rising inflation and pre-central bank uncertainty seems long gone. The 'good old days' is not a foreign concept to most, however when researched further by Cato Institute fellow Johan Norberg, he found it to be a particularly misleading cognitive bias. Norberg and his researchers discovered that historical nostalgia is deeply rooted into our neurological design⁵ which given our abilities to instinctually (System 1) recount memories, this results in us often romanticising the past as being better than it was. An eerily similar situation is how some investment managers fall in love with what a company used to be rather than what it is now...but that is for another debate.

Where we find an intriguing intersection between Kahneman's and Norberg's findings, is the potentially destructive nature of human-only decision making (especially if it is solely focussed on System 1) and the aforementioned nostalgia which when combined, can corrupt our present and future decision making abilities. For example, it can be particularly troubling to look to the 'expert of the day' who's perspectives are solely informed by their education or longevity in a field, notwithstanding that they, like us, are fallible (and may in fact be experts of the past, rather than the present).

Deliberation, in a world that is stubbornly clouded with uncertainty can, at times, feel like a dying art. For Spatium, we've ensured that our ability to deliberate is encoded into the systematic investment approach we apply to find short-term price dislocations. Occasionally, we ponder if the dislocated opportunities we find are informed by participants moving positions at too great a speed (i.e. effortless, System 1 decisions - see our [January 2022 newsletter on friction's in investing](#)) or by those who choose not to exit a company due to a romanticised memory. The fact is we can only ever speculate as to the root cause(s) but nevertheless, as long as the investment universe is filled with those not taking heed of their cognitive biases, we will continue to seek these opportunities. The SSCF returned 2.4% for March against a benchmark return of 4.6%, whilst abroad it was a subdued affair with the US & UK small companies indices returning 1.2% and 1.1% respectively.

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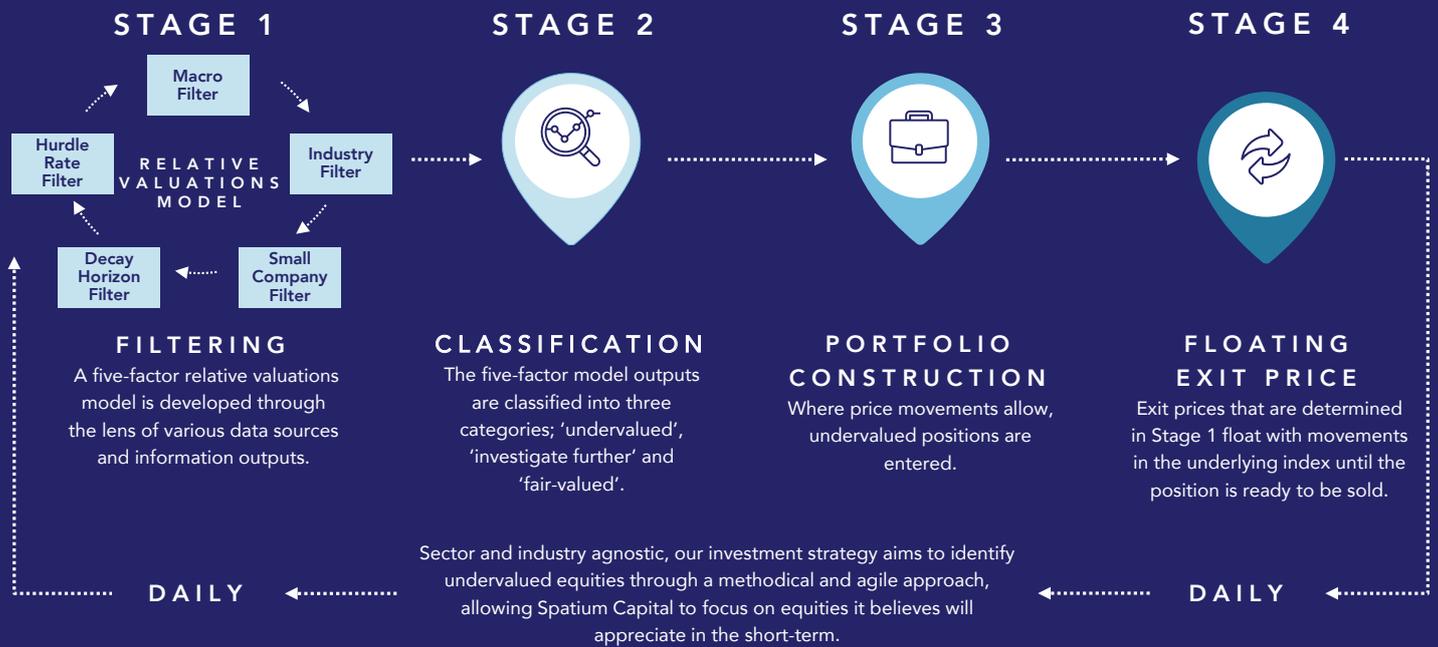
FUND CHARACTERISTICS

UNIT PRICE (AS AT 31 MAR. 2022)	\$1.08
FY2021 DISTRIBUTION YIELD ⁶	12.9%
FY2020 DISTRIBUTION YIELD ⁷	16.5%
SUGGESTED TIMEFRAME	5 to 7+ years
STRUCTURE	Open-Ended Fund
REDEMPTIONS	Monthly
DISTRIBUTIONS	Annually
STRATEGY INCEPTION ³	1 July 2018
MANAGEMENT FEE ⁸	1.25% per annum

OTHER KEY METRICS OF INVESTMENT STRATEGY³

	SSCF ³	MARKET
Average monthly return	1.1%	0.5%
Beta	0.80	1.00
Portfolio variance	5.5%	5.9%
Up-Market capture ratio	93.3%	100.0%
Down-Market capture ratio	56.3%	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

³The 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.

⁴Soros, G. in Tier, M., 2006. *The Winning Investment Habits of Warren Buffett & George Soros*. 1st ed. New York: Truman Talley Books.

⁵Norberg, J., 2020. *Open: The Story of Human Progress*. 1st ed. London: Atlantic Books.

⁶On 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.

⁷On 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.

⁸Other fees and expenses apply. Please refer to the Information Memorandum for the SSCF for further details.

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