

PERFORMANCE SUMMARY

	1 MONTH	3 MONTHS	1 YEAR	3 YEARS p.a.	4 YEARS p.a.	INCEPTION p.a.
SSCF ¹	7.1%	2.9%	-9.5%	9.4% ¹	12.3% ¹	9.9% ¹
Benchmark ²	4.8%	-1.7%	-16.5%	0.0%	3.2%	0.4%
Value Added	2.3%	4.6%	7.0%	9.4%	9.2%	9.4%

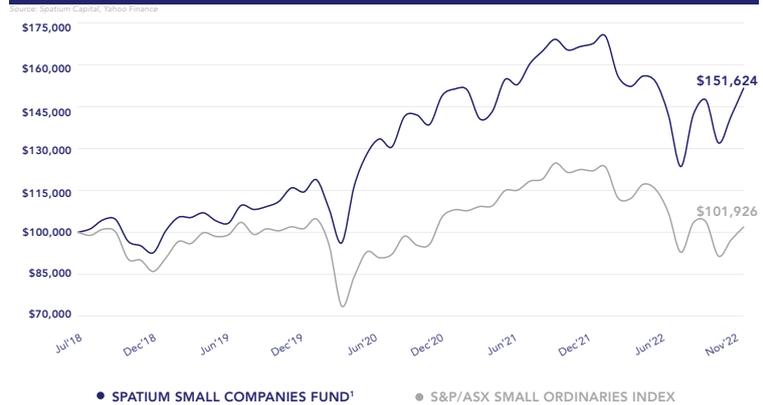
MONTHLY CONTRIBUTORS & DETRACTORS

Fortescue Metals Group Ltd (FMG)	1.1%
Nickel Industries Ltd (NIC)	0.8%
St Barbara Ltd (SBM)	0.8%
Smartgroup Corporation Ltd (SIQ)	(0.1%)
Lendlease Group (LLC)	(0.2%)
Iress Market Technology Ltd (IRE)	(0.2%)

¹The 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.

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

PERFORMANCE GRAPH



'If you know your enemy and know yourself, you need not fear the result of a hundred battles.'³

Is investing a zero-sum game? That being, if one party gains on an investment an equal amount to which the other party loses, then the overall outcome of that encounter is zero. Tennis and chess function as zero-sum games, one winner, one loser. Certainly, some financial instruments function akin to zero-sum instruments, such as options and other derivatives, where a very clear 'winner' and 'loser' is defined contractually (this example excludes cost frictions such as brokerage, transactions costs or margin rates, which make derivatives a slightly negative-sum game). Whilst it can sometimes feel that in the short-term investing operates as a zero-sum game over the long term this has not been the case.

We know that over history, markets have risen more than they have fallen, more value has been created than destroyed, and overall, more money has been 'won' than 'lost' – the net result of this exercise has been a positive-sum game. Not to mention the countless products, lifesaving drugs, technological gadgets, and other business outputs generated along the way. Overall, the equity markets have been a net positive for society and its inhabitants, yet a certain trepidation remains with many about ever being involved in the market itself. Loss aversion plays a large part in this process.

Loss aversion is a phenomenon such that human beings experience an asymmetrical relationship between losses and equivalent gains, invoking more extreme emotional responses from the former than the latter. Some argue this is rooted in Maslow's hierarchy of needs, where losses have a greater detriment to our safety, with equivalent gains not necessarily increasing our level of safety as equally. For many, the emotional response felt and the pain of losing \$100 from ones wallet hurts more than the comparative joy of finding a \$100 bill on the ground.

Which brings us to an interesting financial and behavioural economics cross section. Let's assume you and I play a zero-sum game – a game of heads-or-tails for the next 100 years. Each time you win, I give you \$1,000, and each time I win, you give me \$1,000. Assuming it's a fair coin, and we play repeatedly, there's an expectation that after 100 years we are at or very close to where we started. Statistical distributions assert that there will be pockets of time where you are \$10,000 or more ahead, and there will be times over the journey where it will swing the other way. But over the long term, the expected result should be as close to 50/50 as you're going to get. However,

during the pockets of time where one is down by \$10,000 or more, significant discomf will be felt, almost despair; whilst the time spent ahead by \$10,000 or more will be relatively relieving, but not as equal to the distress felt. Over the long term, we will both experience significant distress, and minor relief. Whilst financially this is a zero-sum game, we can certainly agree that the net emotional sum of this experiment has been negative.

This example helps to explain momentum in market cycles, where during times of market turmoil investors are reluctant to invest, despite being able to purchase much of the market at a discount to recent highs, as the potential for short term pain remains high. If losses can't be absolutely avoided (as in any market), then the next best option for many is to delay that feeling as much as possible. Which is why much capital sits idle, until a significant bull run has begun, at which point the process repeats itself. The relative pain of missed gains remains smaller than the pain of potential short-term losses.

Similarly, we as fund managers feel the pain of underperformance more deeply than we do the joy of outperforming the benchmark. Many a time a single month's underperformance can wipe the joy out of a two, three or more month outperformance streak, even if the quantum of said underperformance is comparatively low. Whilst **we are proud that the Spatium Small Companies Fund has outperformed for 6 consecutive months**, we remain aware that this streak will also at some point come to an end.

Ultimately, the harmony between investor and fund manager is what keeps us working hard to build this firm. We are driven by slightly different targets, both of which operate in tandem to propel the firm forward. As per our chart and table on Page 1, Spatium has outperformed by 50% since its origins, throughout a bumpy, and ultimately flat returning market. One thing is for certain, we couldn't do this without your support of our Firm and given this will be our last newsletter before the festive period, we wish you all a safe holiday season and look forward to continuing this journey next year and for many years to come.

As mentioned the SSCF **outperformed** again in November, returning +7.1% against the benchmark return of +4.8%; an outperformance of +2.3%. Across the waters, US Small Caps returned +3.9% and UK Small Caps returned +6.4% for the month of November.

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FUND CHARACTERISTICS

UNIT PRICE (AT 30 NOVEMBER 2022)	\$1.05
FY2022 DISTRIBUTION YIELD	Nil
FY2021 DISTRIBUTION YIELD⁴	12.9%
FY2020 DISTRIBUTION YIELD⁵	16.5%
SUGGESTED TIMEFRAME	5 to 7+ years
STRUCTURE	Open-Ended Fund
SUBSCRIPTIONS/REDEMPTIONS	Monthly
DISTRIBUTIONS	Annually
STRATEGY INCEPTION¹	1 July 2018
MANAGEMENT FEE⁶	1.25% per annum

OTHER KEY METRICS OF INVESTMENT STRATEGY³

	SSCF ¹	MARKET
Average monthly return	1.0%	0.2%
Beta	0.88	1.00
Portfolio variance	6.3%	6.3%
Up-Market capture ratio	102.9%	100.0%
Down-Market capture ratio	68.8%	100.0%

RESEARCH & RATINGS

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

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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
³Tzu, S., 2005. *The Art of War. The New Illustrated Edition ed.* London: Duncan Baird Publishers Ltd.

⁴On 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.

⁵On 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.

⁶Other fees and expenses apply. Please refer to the Information Memorandum for the SSCF for further details.

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