

# SPHERIA GLOBAL MICROCAP FUND

## THE CASE FOR GLOBAL MICROCAPS

In March 2019, Spheria Asset Management launched a Global Microcap Fund, confident this largely unexplored segment of the market presented the greatest opportunity for client wealth creation. The fund's exceptional relative returns in a period of extreme volatility were delivered by a carefully constructed portfolio of solid businesses, with strong cash flow generation and good balance sheets.



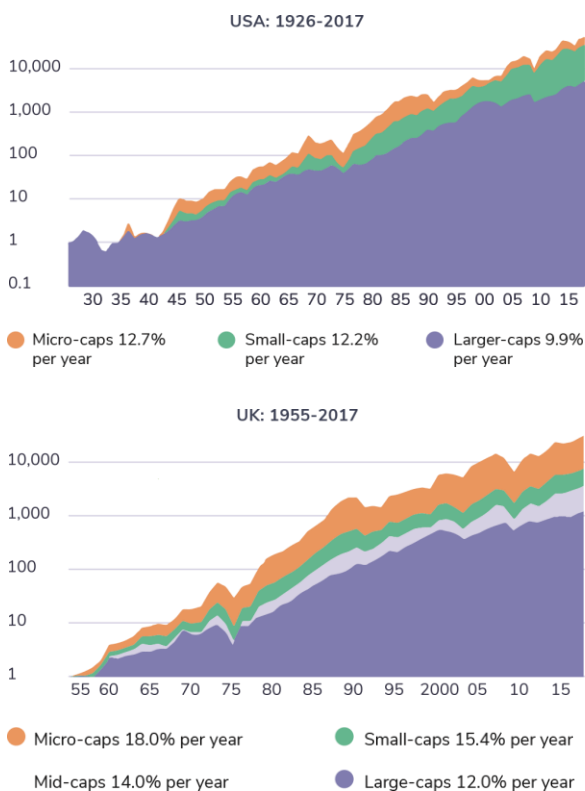
**GINO ROSSI**  
Portfolio Manager

20 years' experience across funds management, sell side and corporate strategy. Global equities experience at Arnhem Investment Management and Credit Suisse Asset Management.

### LONG RUN OUTPERFORMANCE

Over the long-run, microcaps have been the best performing segment in the USA and UK. These strong returns reflect the stock opportunities available within this investment universe of undiscovered, emerging companies.

#### LONG-RUN CUMULATIVE PERFORMANCE OF STOCKS IN DIFFERENT SIZE BANDS



Source: Credit Suisse

The microcap universe includes some notable graduates who have risen from a market capitalisation of under \$US1 billion to become industry leaders.



## GREATER ALPHA OPPORTUNITY

Microcap companies fly under the radar of many investors and research firms. As the table below shows, 80% of companies in the MSCI Global Small-Cap Index have three or more firms offering investment recommendations on Bloomberg. In contrast, only 21% of companies in the MSCI World Microcap Index have three or more firms making recommendations and 51% of stocks have no sell-side coverage at all on Bloomberg. The average S&P 500 company has 21 investment recommendations on Bloomberg.

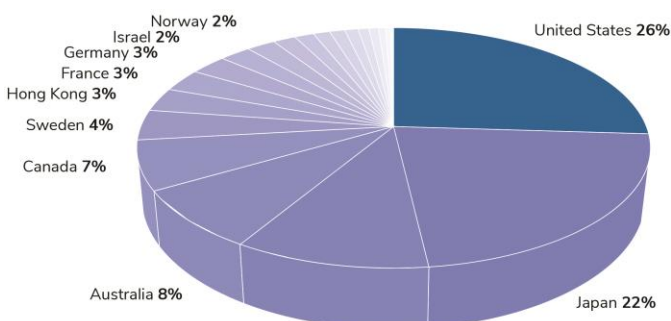
	Microcaps	Smalls	S&P 500
Average Analyst Coverage per Stock	2.7	7.4	21.0
No Coverage	51%	7%	0%
1 Analyst with Coverage	17%	6%	0%
2 Analysts with Coverage	11%	7%	0%
3 or More Analysts with Coverage	21%	80%	100%

Source: Bloomberg, MSCI, S&P, Spheria. Bloomberg reported total number of analysts making recommendations for the security, 9 July 2021.

## TRUE DIVERSIFICATION

Microcaps are a unique asset class for investors, providing additional diversification benefits. The MSCI World and MSCI World Small-Cap Indices are dominated by the US market, representing 68% and 59% of the Index respectively. The MSCI World Microcap Index is less skewed to one country and includes meaningful weights in innovative countries such as Canada, Sweden and Israel.

### MSCI GLOBAL MICROCAP INDEX



Source: MSCI, Spheria

Microcaps are free from distortions created by the recent rise of passive index fund flows given the difficulty passive funds face in replicating such a large and diverse universe of stocks. In August 2019 Morningstar estimated that passive US equity assets surpassed active assets for the first time in history. Analysis by Bank of America Merrill Lynch concluded that "stocks that are more widely held by ETFs and passive mutual funds display systematically higher volatility than the stocks that are less widely held by those same funds".

## BETTER RECOVERY EXPOSURE

Microcaps have historically been pro-cyclical, outperforming other equities during an economic upturn. For this reason, they better complement investors' fixed income assets and are likely to bounce out of a recession faster than large cap and small-cap equities.

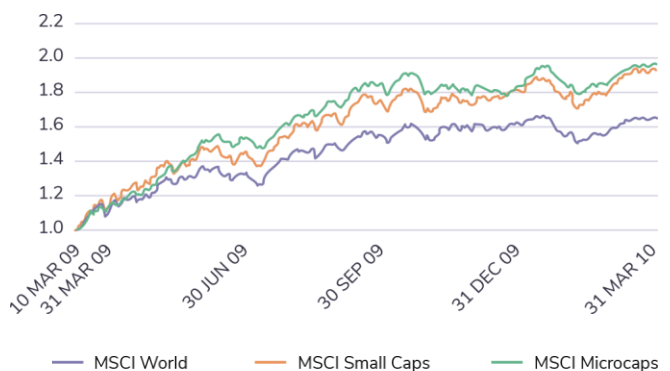
### US MANUFACTURING PMI AND MICRO RELATIVE PERFORMANCE



Source: MSCI, Bloomberg

During the recovery out of the global financial crisis microcaps, measured in USD, outperformed smalls by 32% in calendar year 2009 and 8% in calendar year 2010, and outperformed large caps by 47% and 23% respectively.

### MICROCAPS OUTPERFORMED DURING THE GFC RECOVERY



Source: MSCI, Spheria

# SPHERIA GLOBAL MICROCAP FUND

Launched 1st of March 2019, the Spheria Global Microcap Fund applies Spheria's proven domestic process to a global investment universe.

Spheria's approach seeks out solid businesses that are profitable through the cycle with strong free cash flow, low gearing and valuation upside. The Fund typically holds 40-60 names and is style neutral.

## NET PERFORMANCE AS AT 31 AUGUST 2021

	1 Mth	3 Mths	1 Year	2 Years (p.a.)	Since Inception (p.a.)	Inception Date
<b>Spheria Global Microcap Fund</b>	<b>2.8%</b>	<b>8.0%</b>	<b>46.9%</b>	<b>31.1%</b>	<b>26.2%</b>	<b>01.03.19</b>
Benchmark	2.6%	4.9%	60.3%	28.9%	22.4%	
Outperformance	0.2%	3.2%	-13.4%	2.3%	3.8%	
MSCI World Small Cap Index (Ex-AU) in AUD	3.0%	7.9%	43.8%	18.3%	15.7%	
Outperformance	-0.2%	0.1%	3.1%	12.8%	10.5%	
MSCI World Large Cap Index in AUD	3.1%	12.1%	31.3%	18.2%	18.2%	
Outperformance	-0.2%	-4.1%	15.6%	13.0%	8.0%	

The Spheria Global Microcap Fund has an ex-post beta of 0.69\* and volatility of 13.8, in contrast to the Benchmark volatility of 17.5\*.

Source: Bloomberg, MSCI, Spheria, Past performance is not a reliable indicator of future performance.

\* Risk metrics are since inception figures to 31 March 2021.

## FUND FACTS

- Portfolio: Long only, 30-80 stocks. Global listed microcap equities predominantly in developed markets with a market capitalisation of US\$1.0bn and below at time of purchase.
- Benchmark: MSCI Kokusai (World ex Japan) Microcap Index in AUD (Net)
- Management fee: 1.35% p.a.
- Performance fee: 20% p.a. of outperformance above the benchmark, net of management fee.
- Minimum initial investment: AU\$25,000
- Distributions: Annually
- APIR: WHT6704AU

## HOW TO INVEST

**Direct:** <https://spheria.com.au/spheria-global-microcap-fund/>

### Platform Availability:

HUB24

Netwealth

Macquarie Wrap

Praemium

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i Credit Suisse 2019 Global Investment Returns Yearbook

ii Morningstar August 2019 Fund Flows Report

iii Flood, C. (2019, October 22). Popularity of passive investing changes rules of the game. Financial Times. Retrieved from <http://www.ft.com>