



Investment Philosophy

SilverCross Global Small-Cap Fund invests in a portfolio of 25-35 high-quality smaller companies. It invests in companies with defensible business models across global developed markets.

The Manager applies four core principles in its stock selection. Its aim is to drive attractive long-term investment returns in excess of the benchmark while keeping portfolio turnover low.

Core Selection Principles

Create Value with a sustainable business model.

Compound Growth thanks to a scalable business model.

Undervaluation implies an asymmetric risk / reward profile.

Insider Ownership ensures alignment with management.

About The SilverBullet

A silver bullet refers to a straight-forward solution perceived to have high effectiveness. With this newsletter we aim to offer a mix of thought-provoking research and small-cap insight.

SilverCross resilience during coronacrisis

In rising stock markets, everyone's a winner. If you invest in enough stocks, some of them are bound to go up and provide cover for the unavoidable losers. It is during crisis that the differences in application of investment strategy shows through. For us, each time the stock markets turns sharply down, the strength of our investment process is being put to the test. Now that the worst of the coronacrisis seems behind us, at least from a public health perspective, there is time to look at how we fared.

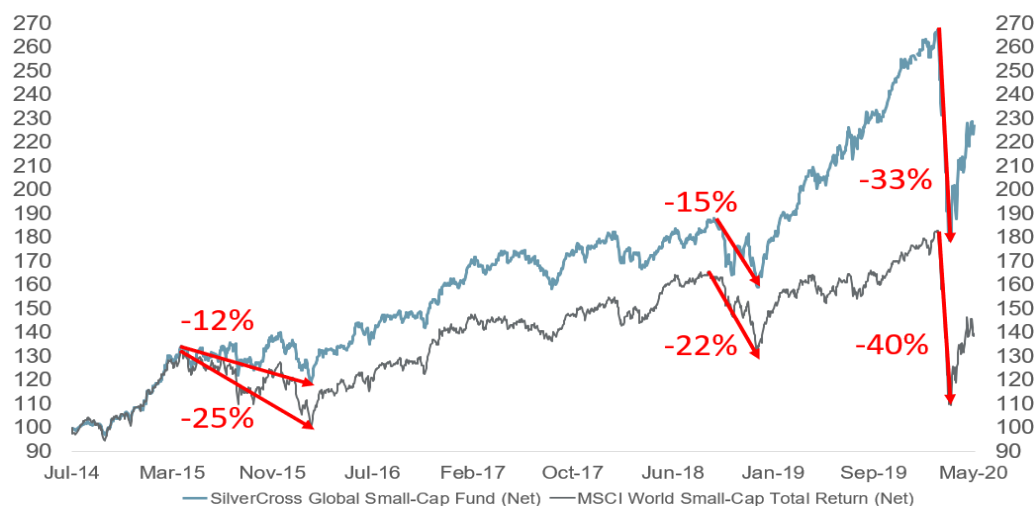
The high quality of the companies in the SilverCross portfolio have once again demonstrated their resilience in this downturn. This is the third significant stock market decline in the last five years. In the previous two and so far in the current downturn, the Fund has materially outperformed its benchmark. During the China / oil price induced market crash in 2015/16, the market declined 25%, while SilverCross demonstrated its resilience declining by 12%. The second material downturn occurred at the end of 2018 as a result of fears about rising interest rates. Global Small-Caps fell by 22% versus 15% for SilverCross. The crisis caused by the coronavirus marks the third big test. The MSCI World Small-cap index was down 40% from its peak in February to its trough in March. SilverCross declined by 33% from peak-to-trough, an outperformance of 7%. The data is summarised in the chart below.

Ever since our inception in 2014 we have written about the importance of focusing on three key ingredients in our 'secret sauce' for a resilient portfolio. We believe these factors position SilverCross well to live through the current crisis. The three key ingredients that we believe will make the companies in our portfolio survive this coronacrisis are:

Net cash: We look for companies with strong balance sheets. On average, the companies in the Fund have a net cash position. They can survive for months and sometimes years with no revenues. SilverCross companies are in a much stronger position to weather this downturn compared to companies in the index which have a net debt position averaging 1.8x their EBITDA.

Resilience: We focus on investing in profitable companies with proven resilience either in the form of recurring revenues or where there is a non-discretionary need for its products (e.g. contact lenses, hearing aid batteries).

Aligned management: The executives running the companies in the Fund have skin in the game, so we know their interests are aligned with ours. They also typically have a proven track-record and experience of successfully manging their business through past crises.



As of 15 May 2020	YTD	2019	1-Year	3-Year ¹	5-Year ¹	Inception ¹
SilverCross Global Small-Cap TR Net	-10.7%	53.9%	11.3%	9.4%	12.2%	15.2%
MSCI World Small Cap TR Net	-20.4%	28.7%	-11.9%	-1.3%	2.3%	5.9%

¹Annualised



Fund Details

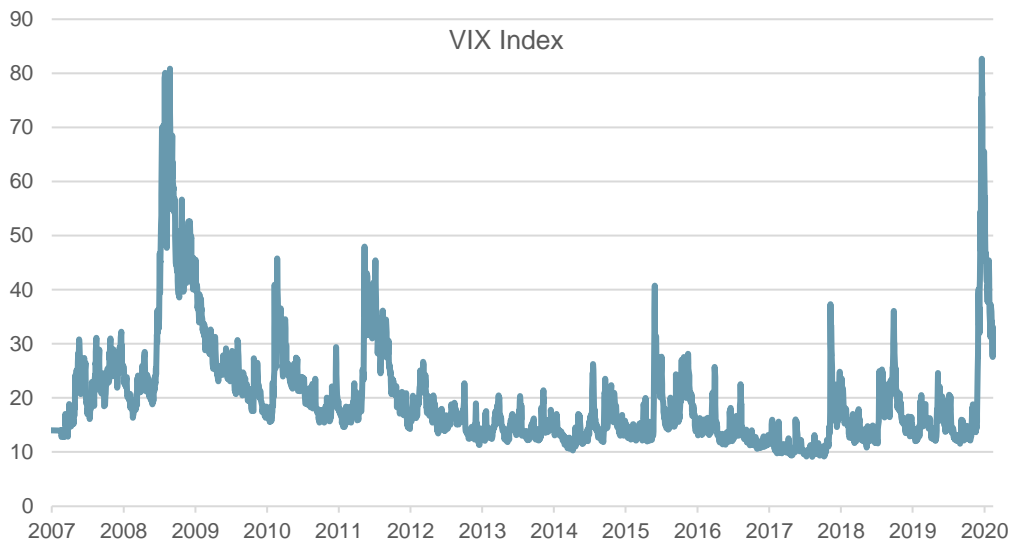
Managers since July 2014:	David Simons & Chris Andrews
Inception date:	30 July 2014
Currency:	EURO
Share Class:	A
Management Fee:	1.15%
Total Expense Ratio:	1.40%
Minimum Investment:	100,000
ISIN code:	NL0010832242
Bloomberg:	SCGSCFA NA

This downturn is like no other. Some businesses that seemed resilient will be tested. Some industrial companies, for example, have recurring service businesses which provided a resilient revenue stream in past downturns. In a lockdown, even service technicians are being denied access. When planes aren't flying, no spare parts are needed. In this crisis, more so than ever, it is a combination of a 'resilient' revenue stream as well as enough cash to sit out the storm that will separate the wheat from the chaff.

What can we do at this time?

"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful"
Warren Buffett.

Significant volatility in share prices provides opportunities for bottom-up stock pickers. Particularly in less well researched smaller companies. Volatility in March was the highest we have ever witnessed. The below chart shows the VIX index, a popular measure of stock market volatility, which reached an all-time high on 16 March.



Our investment process allowed us to remain calm and make investment decisions in the face of panic that surrounded us. For companies in the portfolio most impacted by the coronavirus, we have evaluated their liquidity and how long they would be able to survive with no revenues. We have taken the opportunity to increase holdings in companies where share price declines appear to provide a compelling risk/reward profile. For one of our top ten holdings as of the end of 2019, our assessment in March led us to conclude the risk of permanent capital loss outweighed the potential reward. The holding was sold.

Given the huge influx of news during these uncertain times, extensive due diligence carried out over the past years means we are prepared and make investment decisions relatively quickly. Our shortlist of high-quality companies for which we have completed all the research in the past has proven its value. These companies met our quality criteria, but the high valuations had precluded us from investing. We have been patiently waiting for the market to present us with a buying opportunity. These opportunities came in March and three new companies were added to the portfolio.

How about the oil price collapse?

The oil price has fallen from \$67 a barrel in early January to \$23 at the end of the first quarter. The decline has been caused by a combination of a supply side shock due to the price war between Saudi Arabia & Russia and a huge demand slump caused by the coronavirus. Many companies dependent on high oil prices are at risk of going bankrupt. What is the risk for SilverCross? We work with a checklist of characteristics of business models we avoid. One of those characteristics is 'companies exposed to factors outside of management control'. One such factor is the price of a commodity such as oil. This prohibits management of those companies from being in control of their own profitability. In short, the oil price collapse will not be a significant issue for our portfolio companies. Over the long-term a lower oil price can act as a boost to the economy, can stimulate growth and could be beneficial to our portfolio companies.

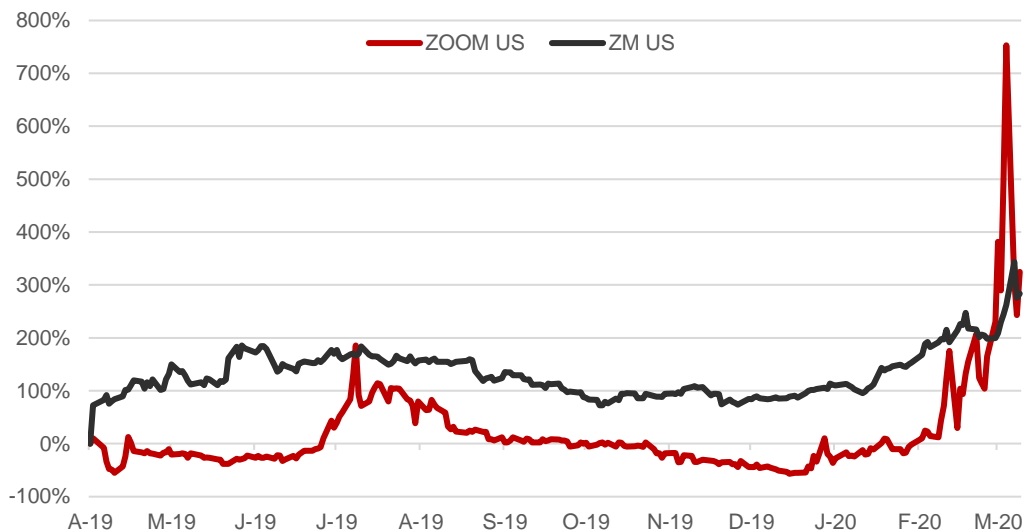


About the authors

David Simons and Chris Andrews are the founders and portfolio managers of SilverCross Global Small-Cap Fund. SilverCross is an asset manager based in Amsterdam, The Netherlands. It is focused on managing a high-conviction global small-cap equity portfolio.

How not to ZOOM. Do your homework!

Have you ever heard of a company called Zoom Video Communications? Lockdowns have led to millions of people from business professionals to school children using Zoom's video conferencing solutions. Zoom's daily users increased to more than 200m in March versus a previous maximum of 10 million. Panic buying to benefit from this trend led many investors to fill their boots with ZOOM shares without doing any proper due diligence. From the start of the year to 20 March, ZOOM's shares increased by a staggering 1890%. The only problem is, ZOOM is the stock ticker of a completely different microcap company called ZOOM Technologies. Oops! The stock ticker of the correct company, Zoom Video Communications is ZM. We always say that an investment in SilverCross is an investment in a group of high-quality companies and not a list of stock tickers. This is an extreme example of what can go wrong when you buy stocks tickers by making investment decisions based on flimsy research. On 26 March, the US regulator halted trading in Zoom Technologies. To avoid further confusion the ticker symbol of ZOOM has been changed to ZTNO on April 14th, causing the share price to decline to pre-corona levels.



At SilverCross, although business travel has stopped, we have remained fully functional and communication with our portfolio companies continues by either conference or video calls. We have been in direct contact with a number of the companies in the portfolio to assess the impact an extended lockdown may have. The partnerships we have built with companies over the years allows us direct access. This has proven highly valuable in this crisis.

With kind regards,
David Simons & Chris Andrews



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