



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.

Time: Your friend or enemy?

When we analyse new investment opportunities, we ask ourselves: Is time a friend of this business? As the famous investor Peter Lynch once explained: "With great companies, the passage of time is a major positive."

So why do we consider time to be our friend? Our investment process is focused on finding and investing in great companies. They benefit from secular growth drivers in the industry in which they operate. Great companies often dominate their niche and are run by passionate leaders with a strong track record and high insider ownership. Quite frequently, though not necessarily, these leaders are the founders. Most of the companies that SilverCross owns have been in existence for decades. They have built a strong position in their market. Very often they are the market leader based on many years of innovation.

And as time progresses, they expand their competitive edge, making it harder to compete with them. Customers are loyal thanks to a combination of good products, speed and service. This also attracts new customers. It sets the company up for efficiencies that cannot easily be matched by competitors. In the end, success breeds more success, as long as complacency is avoided, and technological progress embraced.

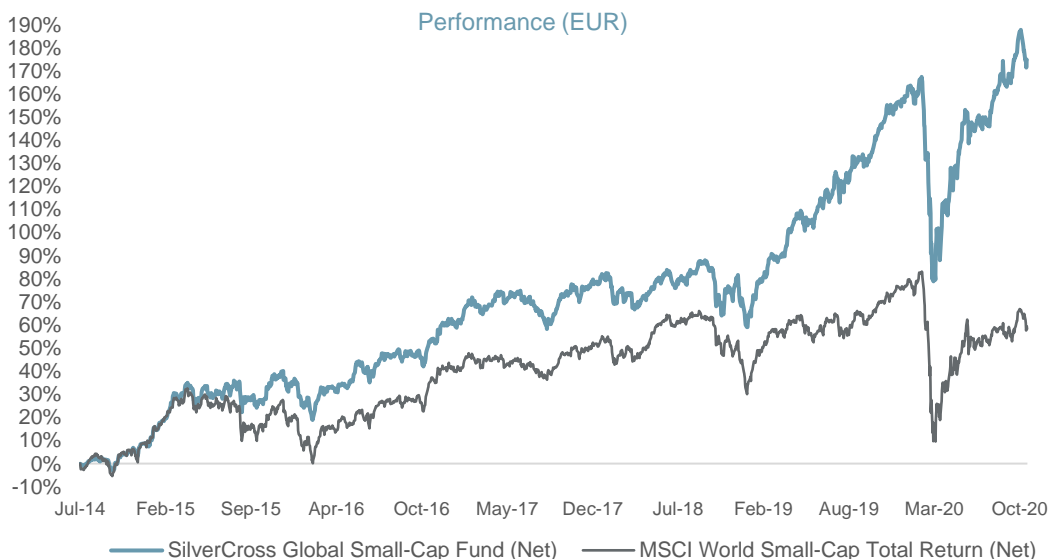
If SilverCross continues to select truly great companies, time will allow these companies to compound their growth at high rates.

When would time become our enemy? The short answer is: when we don't take corrective action after concluding we made a mistake. Some entrepreneurial decisions, including investment decisions, invariably will be proven wrong. The reasons can be many.

Nobody can only make good decisions. The most important thing to do is to admit your mistake when you've made one and move on. We never wait, ignoring our mistake in the 'hope' that a mistake will somehow disappear and allow us to get out without a loss. We cut our losses and move on, in search for better investments that have what it takes to generate strong compound returns over time. It's not easy, though. There is a lot of information coming at us. Stock prices can move wildly on the basis of little or no news. It is our job to separate the wheat from the chaff.

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.



As of 31 October 2020	YTD	2019	1-Year	3-Year ¹	5-Year ¹	Inception ¹
SilverCross Global Small-Cap TR Net	7.9%	53.9%	14.4%	15.7%	15.5%	17.5%
MSCI World Small Cap TR Net	-9.7%	28.7%	-4.3%	1.8%	5.6%	7.6%

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:	Max. 1.40%
Minimum Investment:	100,000
ISIN code:	NL0010832242
Bloomberg:	SCGSCFA NA

Does 'the market' know more?

One of the challenges we face as investors is the sheer amount of newsflow coming to us. News comes from many sources and one can never be fully informed. That is why there is a natural tendency to infer information from the direction of the stock price. If it goes up, that's because the company will have a rosy future. If the stock price goes down, without any negative accompanying news, one feels that 'someone else' knows more and is selling ahead of bad news. This can lead to knee jerk reactions. Do you recognise having sold shares in an investment close to the bottom because you couldn't stand facing the continuous stock price decline since you bought it?

Here is an overview of stock price declines of a well-known company since it listed in 1980:

Stock price decline from high: Frequency:

>10%	27 times
>25%	17 times
>50%	6 times
>75%	3 times

None of these declines should have led you to bail from this company as the price return since its IPO was roughly 295,000%. This excludes dividends paid since 2012. The company name: Apple. For those who believe this is an out-of-this-world achievement: this equals 15% annual compound return. Clearly good over such a long period of time, but not out of this world. There are more examples. And although our track record doesn't stretch to 40 years yet, SilverCross has generated an annualised investment return in excess of this level since inception. We'll call it a good start and fully recognise we need another 34 years to match this great result. A combination of luck and skill should be the key concepts for this to happen.

The key takeaways:

- 1) Don't be scared out of an investment just because the stock price declines. Despite dozens of sharp stock price declines, the stock has done phenomenally well. It just shows that equity investing is not for the fainthearted. Volatility is normal. In finance books we study in university we are taught that volatility equals 'risk.' That is not how we see it. A significant stock price decline may in fact equal opportunity, provided we have a good grasp of a company's potential for growth and associated risks.
- 2) Let time work for you. Be a long-term investor. In good times and bad. Stay focused on the long-term goal rather than on short-term stock price fluctuations. It's called the *Power of Compounding*. Over time, compounding will result in a parabolic rise of your initial capital invested. To see for yourself how compound interest can work for you, click the link [here](#).² You will be positively surprised.

You don't lose money until you sell

Sometimes people tell us that if you invest in a stock and the price subsequently declines, you haven't lost money until you sell. Only then you would really have the loss. Regrettably, this belief is as widespread as it is flawed his belief implies that the price at which someone bought is relevant. Possibly, this is intuitively built on the premise that there is a law at work in the stock market that's called 'reversion to the mean.' Or the inverse of 'what goes up must come down.' The problem is that the stock market is not like the weather, where sunshine invariably follows rain. Stock prices can go down and stay there forever, if the business value is impaired. The stock market doesn't care where someone bought his or her shares. Negating reality and hoping for 'the stock market' to bail you out can be a costly mistake, as it foregoes the opportunity to reinvest in companies with better prospects. Instead of a strategy based on hope, ask yourself this simple question: "If you did not own the shares today, would you buy the shares?" If the answer is 'No', you know what to do.

Being right *most* of the time

At SilverCross, we are allergic to significant financial leverage. Society has gotten carried away with debt. Many people and business managers, even central banks, seem to disagree with our self-imposed allergy. Debt has a lower cost of capital than equity, so why not use it? Because at rare and unpredictable intervals, debt becomes financially fatal. It's like Russian roulette – *most* of the time you live, yet sometimes you die. A CEO that gets a huge bonus for success driven by significant debt, but does not feel any pain when the business goes bust, can take this risk. A CEO with skin in the game via equity ownership would think twice before playing that game. Bottom line, at SilverCross, we don't play Russian roulette with the capital of our participants. Investment success is by financial survival. Survival gives longevity. And longevity is what makes compounding work wonders.

² <https://www.investor.gov/financial-tools-calculators/calculators/compound-interest-calculator>



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.

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