




December 2019

## Fund overview

The Cambridge Global Smaller Companies Fund focuses on identifying companies with a sound, sustainable business and not overpaying for this value creation.

- Access to a portfolio of high quality global smaller companies
- Focus on companies with attractive capital appreciation potential
- A high conviction portfolio of 30-50 companies
- Aims to deliver strong risk-adjusted returns
- High active share makes it a complementary investment to passive investment strategies
- The investment team co-invests in the Fund, creating a strong alignment of interests between the team and the Fund's investors.

## Investment philosophy

 <p><b>FUNDAMENTAL APPROACH</b></p> <p>Deep, bottom-up research process</p> <p>—</p> <p>Requires discipline, independent thought, and a long term perspective</p> <p>—</p> <p>Benchmark agnostic delivers differentiated portfolios</p>	 <p><b>VALUE CREATING BUSINESSES</b></p> <p>Identify durable business models</p> <p>—</p> <p>Pay the appropriate price for a business's value creation potential</p> <p>—</p> <p>Focus on identifying unique insights about companies</p>	 <p><b>OWNERSHIP MENTALITY</b></p> <p>Stewards of our clients' capital</p> <p>—</p> <p>Seek the alignment of interests of all stakeholders</p> <p>—</p> <p>Co-investment alongside our clients</p>
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## Strategy overview

The objective of the strategy is to provide long-term capital appreciation by investing in companies located anywhere in the world (except Australia) with a market cap of US\$250M to US\$10B. We focus on value creating businesses with durable competitive advantages and use cash flow generation to assess the quality of a business model.

## Performance

As at 31 December 2019

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception <sup>1</sup> % pa
Fund <sup>2</sup>	(2.01)	5.66	10.94	-	-	(4.53)
Benchmark <sup>3</sup>	(0.44)	5.48	26.53	-	-	3.92
Value added	(1.57)	0.18	(15.59)	-	-	(8.45)

### Performance components

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception <sup>1</sup> % pa
Distribution <sup>4</sup>	0.00	0.00	0.00	-	-	0.00
Growth	(2.01)	5.66	10.94	-	-	(4.53)
Total <sup>2</sup>	(2.01)	5.66	10.94	-	-	(4.53)

1. Inception date: 31 August 2018

2. Fund returns are calculated net of management fees and assume distributions are reinvested

3. MSCI World ex- Australia Small Cap Index in \$A, Net dividends reinvested

4. Distribution may include income, realised capital gains, and any return of capital

Past performance is not a reliable guide to future performance.

## Fund facts

Top 5 holdings	Sector	Weight%
Great Canadian Gaming Corp	Consumer Discretionary	5.1
Seria Co., Ltd.	Consumer Discretionary	4.8
Middleby Corporation	Industrials	4.6
Euronext NV	Financials	4.4
CarGurus, Inc. Class A	Communication Services	4.4

Regional allocation	Fund%	Index% <sup>1</sup>
United States	36.8	58.0
United Kingdom	22.4	7.7
Canada	15.5	3.9
Japan	6.8	12.5
France	4.4	1.4
Netherlands	4.2	1.0
Germany	3.8	2.6
Australia	2.6	--
Sweden	2.0	2.5
Denmark	1.5	0.7
Other	--	9.7
<b>Total<sup>2</sup></b>	<b>100.0</b>	<b>100.0</b>

Sector allocation	Fund%	Index% <sup>1</sup>
Consumer Discretionary	27.2	12.0
Financials	20.0	14.2
Information Technology	19.8	13.0
Industrials	12.3	17.7
Energy	7.1	3.5
Communication Services	4.4	3.5
Materials	2.5	6.5
Consumer Staples	2.0	4.4
Health Care	1.5	10.9
Real Estate	--	11.6
Utilities	--	2.8
Cash	3.1	--
<b>TOTAL<sup>2</sup></b>	<b>100.0</b>	<b>100.0</b>

1. MSCI World ex- Australia Small Cap Index in \$A, Net dividends reinvested
2. May not total 100 due to rounding

The data presented in these tables is unaudited and may change at any time. The data is shown for informational purposes only and is not indicative of any future portfolio characteristics. Source: FactSet at 31 December 2019.

## Manager commentary

At Cambridge, we're focused on finding well-run businesses that generate strong cash flow growth at reasonable prices. With that in mind, we are monitoring the economy as uncertainty exists going into 2020. Although declines are slowing, leading indicators continue to point to a weaker economy and any prolonged economic slowdown could be amplified by the high leverage levels in the global economy. We expect the easing trade tensions to benefit companies which have had to increase prices to offset rising costs from higher tariffs.

For the quarter ending December 31, 2019, the fund returned 5.66%, outperforming the 5.48% return of the benchmark. Security selection was the main driver of overperformance against the MSCI World ex-Australia Small Cap benchmark. Specifically, security selection was positive in sectors such as information technology, communication services, financials and consumer discretionary; holdings within the energy sector detracted from performance.

Top contributors over the quarter were Keywords Studios and Numis Corporation. Numis Corporation PLC is an independent research firm that offers a full range of research, execution, equity capital markets, corporate broking and corporate financial services to United Kingdom quoted companies and their investors. Increased optimism around capital market activity in the U.K. given the election positively impacted the share price over the quarter.

Detractors to the fund included PrairieSky Royalty and Etsy. PrairieSky Royalty is an energy company in Canada, with a sizable and diversified royalty asset base. The company earns a percentage of production on its land without the associated operating and capital costs, which enables high free cash flow margins that can be returned to shareholders or to acquire new assets. While management looks to actively manage its portfolio and attract activity onto PSK lands, production will ultimately be linked to overall investment in Canadian energy industry given the breadth of its production/assets. The company detracted from performance in 2019 as the overall industry has struggled. Since last year, the valuation for PSK compressed from greater than 20x to about 14x forward FCF at a very depressed point in the capital cycle. We believe the valuation is attractive for this high-quality energy business. Another detractor was Etsy, Inc., an online company which provides e-commerce services which offers handmade and vintage items, art, and supplies, as well as regular items such as clothing, housewares, paper goods, candles, bags and purses, music, and wood working items. Etsy serves customers throughout the United States. The company missed expectations due to several growth initiatives not going as smoothly as investors hoped.

Over the quarter, the portfolio initiated a position in Etsy and Softcat and exited a position in JUST EAT and Aston Martin. Of note, two holdings (Oslo Bors and Just Eat) were acquired over the quarter.

We remain committed to building portfolios to endure any macro-economic environment by focusing on finding well-run businesses that generate strong cash flow growth at reasonable prices. Easing trade tensions will benefit holdings like Spin Master and Middleby which have had to increase prices to offset rising costs from higher tariffs (pricing power is important). Brexit finally occurring (or not) in early 2020 will improve capital flows into the U.K., which should benefit the businesses we own there. By way of discussion, we own domestic retailers, investment management companies and technology distributors who have robust business models that we believe will sustain any macro shock - we would be more concerned of how the macro movements unfold if we owned real estate, banks or regulated assets. As fundamental investors, our focus remains on identifying durable, high-quality businesses that can compound shareholder value through our disciplined bottom-up investment process.

See [gsfm.com.au](http://gsfm.com.au) for more information about the Cambridge Global Smaller Companies Fund.

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### Important Information

GSFM Responsible Entity Services Limited ABN 48 129 256 104 AFSL 321517 (GRES) is the responsible entity of the Cambridge Smaller Companies Fund ARSN 629 676 544 (Fund) and is the issuer of this information. The Fund is registered as a managed investment scheme under the Corporations Act 2001 (Cth). GRES has appointed Cambridge Global Asset Management as the investment manager of the Fund. Class A Units in the Fund are available for issue by GRES, as responsible entity of the Fund. This information has been prepared as general information only without taking account the objectives, financial situation or needs of individuals. Before making an investment decision in relation to a Fund, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs. Prospective investors should read and consider the product disclosure statements (PDS) for the Fund dated 25 March 2019 and the Additional Information to the PDS. Copies of these documents can be obtained by calling 1300 133 451 or from this website. Applications to invest in the Fund must be made on the application form which can be downloaded from this website or obtained by calling 1300 133 451. Past performance information given in this document is given for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance. None of GRES, its related bodies or associates nor any other person guarantees the repayment of capital or the performance of the Funds or any particular returns from the Funds. No representation or warranty is made concerning the accuracy of any data contained in this document. This document is issued on 22 January 2020.