

THB US Micro Cap Fund

Quarterly Report – December 2017

Market Commentary

The Russell Microcap® Index (Index) returned 2.1% (AUD) in Q4, and returned 4.8% for the full year 2017.

Materials (+6.9%) was the best performing sector in Q4, followed by Consumer Staples (+6.2%) and Consumer Discretionary (+5.8%). Information Technology (-1.3%) and Utilities (-0.8%) were the only negative performing sectors.

The passage of tax reform near year-end provided a fitting capstone for the broad strength among US equities in 2017 and supports an already healthy US economic backdrop as we begin 2018. THB has long believed that optimism has been the missing piece needed for the US economy to break out of the slow growth malaise witnessed since the Great Financial Crisis, and is happy to see it broadly return to boardrooms, executive offices, and consumers in 2017. Several measures of confidence signal that the changes in Washington have reignited the spirits of large sections of the economy. The Conference Board's measure of consumer confidence is now at its highest level in 17 years. Business optimism and spending on capital expenditures has been remarkably robust, especially in the second half of 2017, and is set to increase further now that corporate tax reform has become law.

Portfolio Commentary

The THB US Micro Cap Fund returned 2.6% in AUD (net of fees) in Q4, and returned 2.9% (net of fees) for the full year 2017.

Positive contribution came from strong stock selection in Consumer Discretionary (+1.0%), Industrials (+0.3%), and Consumer Staples (+0.2%). Negative contribution came mainly from selection in Information Technology (-0.6%), Health Care (-0.2%), and Energy (-0.1%).

THB's top five performing stocks (from a contribution standpoint) were Overstock.com (Consumer Discretionary, +2.1%), Allied Motion Technologies (Industrials, +0.5%), USA Technologies (Information Technology, +0.4%), MYR Group (Industrials, +0.4%), and Exactech Inc (Health Care, +0.4%).

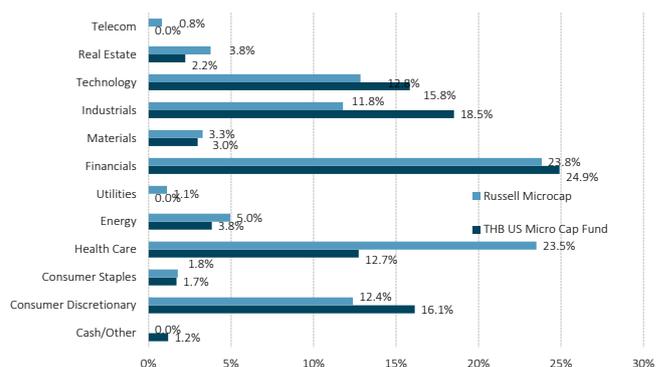
The bottom five performing stocks (from a contribution standpoint) were ePlus Inc (Information Technology, -0.3%), GP Strategies Corp (Industrials, -0.3%), Mesa Laboratories (Information Technology, -0.3%), LeMaitre Vascular Inc (Health Care, -0.3%), and Johnson Outdoors (Consumer Discretionary, -0.2%).

THB believes the powerful combination of corporate tax reform, meaningful regulatory easing, and the tailwind of underlying US economic growth should significantly benefit smaller domestically-focused companies leveraged to a strengthening US economy. Ultimately, THB's optimism remains grounded in the many opportunities it continues to find at the individual company level combined with the shared optimism of the management teams running these companies. Importantly, despite the multitude of positive tailwinds, US microcaps continue to trade near long term trough levels and at an attractive discount relative to other cap sizes.

Fund Details	
Benchmark	Russell Microcap® Index ¹
Inception Date	5 September 2014
Fund Size	A\$219.1 million

Net Performance – 31 December 2017			
	Fund ²	Russell Microcap®	Difference
1 Month	(5.0%)	(3.4%)	(1.6%)
3 Months	2.6%	2.1%	0.5%
1 Year	2.9%	4.8%	(1.9%)
2 Years p.a.	16.8%	12.6%	4.2%
Since Inception p.a. ³	14.7%	15.7%	(1.0%)

Sector Allocation⁴



- The Russell Microcap Index is a capitalisation weighted index of 2,000 stocks that captures the smallest 1,000 companies in the Russell 2000 and 1,000 smaller US based listed stocks.
- Performance figures are presented in AUD on a net, pre-tax basis and assume the reinvestment of distributions. Past performance is not an indicator of future performance.
- Fund inception date was 5 September 2014 however inception performance is calculated from 1 October 2014.
- Portfolio holdings and allocations are subject to change and should not be considered as investment recommendations to trade individual securities. The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified were or will be profitable. There is no assurance that any securities discussed herein will remain in the portfolio at the time you receive this report, or that securities sold have not been repurchased. There can be no assurance that investment objectives will be achieved. A full list showing every holding's contribution to the overall account's performance during the measurement period and calculation methodology is available upon request.

Stocks in Focus

Microcap investing is sensitive to overall macro conditions, but it also affords THB the opportunity to find unique company-specific investments that can thrive far beyond the current business environment. Highlighted below are some companies recently or currently held in the portfolio which fit that profile.

Overstock.com (OSTK)

Since highlighted in the Q3 2017 quarterly report, OSTK continued its strong performance and eclipsed \$1.8 billion in market cap from \$445 million at the beginning of the year. THB started buying the stock in early 2015 but recently exited the position to reallocate into new opportunities. THB continue to believe in the visionary entrepreneur Patrick Byrne, Founder and CEO, and wish him and his team continued success.

THB's thesis was predicated on OSTK's strong growth profile, cash rich balance sheet, and developing but underappreciated blockchain technology that THB believe were not appropriately reflected in the valuation given the significant discount to its peer group.

Through small start-up investments over the past few years, Mr. Byrne successfully developed OSTK's blockchain subsidiary and launched the first of its kind digital securities trading platform, tZERO, which is also the only one approved by SEC and FINRA. Additionally, Overstock announced a joint venture to launch the first ICO (Initial Coin Offering) exchange that complies with SEC and FINRA. These developments were critical milestones in the adoption of blockchain technology and, THB believes, increased the intrinsic value of OSTK's blockchain subsidiary which could potentially be spun-off. Blockchain enables the automatic processing and verification of transactions through algorithms without the need of third party intermediaries. Financial institutions around the world are recognising its disruptive potential and are exploring various ways to utilise the technology in their operations. Blockchain could also be applied to multiple industries beyond the financial services such as retail, healthcare, and real estate where the need for verification and the risk of fraud are high.

Allied Motion (AMOT)

AMOT utilises its underlying core electro-magnetic technology to provide compact, high performance products as solutions in a wide range of motion applications serving the automotive, industrial and medical markets. Factory and industrial automation, energy efficiency as well as the electrification of vehicles are key megatrends driving significant growth for AMOT. In the medical markets, its brush and brushless motors and electronics are designed into robotic devices in a broad spectrum of applications from surgical robots to IED disposal robots to automated material handling robot.

The company recently won the nomination for an approximate \$65 million award to provide a customer-specific solution for its Vehicle market in Asia and Europe. This award is in addition to the previously disclosed Vehicle market award of \$90 million announced in May 2017, bringing the total received this year to \$155 million. The company stands out with high insider ownership of 19% and strong management team with a proven track record in the industry from Danaher Corp.

Mitek Systems (MITK)

Mitek is the leader in mobile data capture applications, including mobile check deposit which it invented, and is well-positioned to benefit from the continued migration to mobile commerce. The proprietary technology effectively turns camera-equipped smartphones and tablets into mobile digital scanning devices that facilitate safe and compliant mobile onboarding and monetary transactions. Growth channels acquired through a strategic acquisition in 2015 include Mobile Fill and Mobile Verify, which

address new customer onboarding and fraud prevention that should benefit from Know Your Customer (KYC) and Anti Money Laundering (AML) regulations. Widespread adoption of blockchain technology for real time identity verification could also be a significant driver as all-digital channels continue to develop. For example, Mobile Verify was selected by a European blockchain provider, Nocks, for identity verification in response to AML and KYC regulations and to streamline customer onboarding. The U.S. mobile check deposit market is approximately \$1 billion and growing double digits. The mobile identity verification market is much larger, with multi-authentication expected to be approximately \$10 billion by 2020.

MITK has a strong balance sheet with \$43 million in cash, no debt, and solid FCF, which should allow MITK to continue investing in growth initiatives to help it sustain greater than 20% topline growth over the next few years while also enjoying margin expansion.

Portfolio Statistics¹

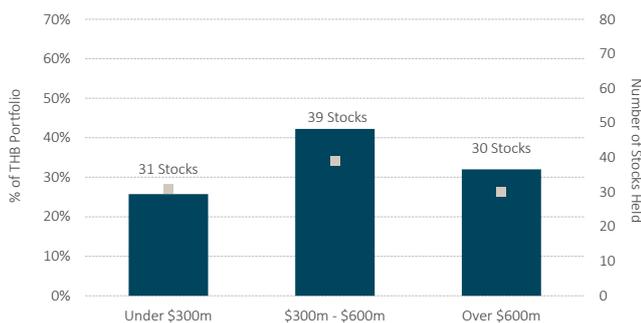
As at 31 December 2017		
	Fund	Russell Microcap®
Weighted Avg Market Cap	\$530m	\$621m
Price/Sales	1.2x	1.2x
Price/Book	1.9x	1.9x
Dividend Yield	0.8%	1.2%
Number of Securities	100	1,499
Standard Deviation	14.4%	15.2%
Sharpe Ratio	0.9	0.8
Beta	0.9	
Tracking Error	5.5	
Information Ratio	0.0	

1. Portfolio statistics are reported in USD.

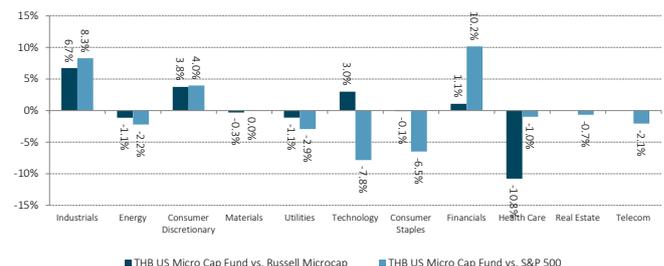
Top 10 Holdings

Stock	Sector	Weight
Old Second Bancorp	Financials	2.7%
First Busey Corp	Financials	2.1%
Allied Motion Technologies	Industrials	2.0%
Heritage Financial	Financials	2.0%
MYR Group	Industrials	1.9%
Insteel Industries	Industrials	1.9%
Bassett Furniture	Consumer Disc	1.9%
UFP Technologies Inc	Materials	1.8%
Anika Therapeutics Inc	Healthcare	1.7%
PCSB Financial Corp	Financials	1.7%

Companies by Market Capitalisation



Active Sector Positioning



Investment Strategy

Thomson Horstmann & Bryant, Inc. (THB) is an employee-owned boutique investment management firm based in Connecticut specialising in smaller company strategies. THB's US Micro Cap strategy is based on the belief that there are inefficiencies in the micro cap segment of the market due to lack of analyst coverage, difficulty in identifying value and the impact that management skill has on the direction of smaller companies. THB utilises a disciplined, fundamental bottom-up approach that blends both qualitative and quantitative methods to construct a well-diversified portfolio of companies that possess attractive operating metrics, yet with comparable valuation to the Russell Microcap® Index.

BROOKVINE



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