



# THB US Micro Cap Fund

## Monthly Report – February 2018

### Market Commentary

The Russell Microcap® Index (Index) returned 0.6% in AUD in February.

Telecommunications Services (+2.2%) was the only positive sector this month. Energy (-11.0%) was the worst performing sector, followed by Real Estate (-9.2%) and Utilities (-5.3%).

A bout of volatility hit the markets in February, although U.S. equities remain in positive territory for the year after regaining much of the losses experienced earlier in the month. The underlying economy continues to exhibit solid expansion and confidence remains strong. The ISM Manufacturing Index, which monitors economic activity in the US manufacturing sector, expanded to its highest level since 2004. Consumer confidence (Conference Board Leading Economic Index) climbed to 130.8, touching its highest level since 2000. Consumers are upbeat about both the present situation and future expectations, with more positive sentiment about the availability of jobs and expected income growth.

### Portfolio Commentary

The THB US Micro Cap Fund returned -0.2% in AUD (net of fees) in February.

While stock selection in Energy (+0.3%), Consumer Discretionary (+0.2%) and Financials (+0.1%) made a positive contribution, the negative contribution from underallocation in Biotechnology (-0.7%) and selection in Health Care (-0.6%) offset these gains.

THB's top five performing stocks (from a contribution standpoint) were Fogo de Chao Inc (Consumer Discretionary, +0.2%), Mammoth Energy Services (Energy, +0.1%), The Hackett Group (Information Technology, +0.1%), Ultralife Corp (Industrials, +0.1%) and Vishay Precision Group (Information Technology, +0.1%).

The bottom five performing stocks (from a contribution standpoint) were Anika Therapeutics (Health Care, -0.5%), Allied Motion Technologies (Industrials, -0.2%), Insteel Industries Inc (Industrials, -0.2%), Smart Sand (Energy, -0.2%) and Old Second Bancorp Inc (Financials, -0.2%).

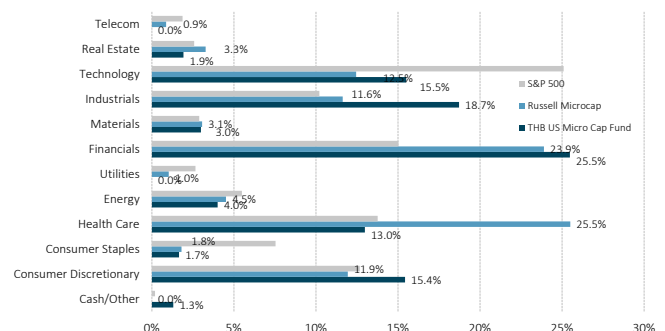
THB remains very positive on US microcap equities. Valuations are modest, the potential for M&A is robust, and lower taxes and deregulation should disproportionately benefit smaller US companies. The portfolio holdings continue to exhibit healthy financial flexibility, collectively completing 56 acquisitions totaling \$3.3 billion (USD) and returning over \$600M in the form of dividends and share repurchases over the past 12 months.

Fogo de Chao announced it reached an agreement to be acquired by Rhone Capital, a global private equity firm. Such activity supports THB's view that record levels of private equity dry powder will be put to work and that high quality, undervalued microcap companies will be a target rich environment for deal activity.

Fund Details	
Benchmark	Russell Microcap® Index <sup>1</sup>
Inception Date	5 September 2014
Fund Size	A\$221.6 million

Net Performance – 28 February 2018			
	Fund <sup>2</sup>	Russell Microcap®	Difference
1 Month	(0.2%)	0.6%	(0.8%)
3 Months	(6.4%)	(3.8%)	(2.6%)
1 Year	8.3%	11.3%	(3.0%)
2 Years p.a.	18.9%	18.4%	0.4%
Since Inception p.a. <sup>3</sup>	13.5%	14.8%	(1.3%)

### Sector Allocation<sup>4</sup>



- 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.

## Portfolio Statistics<sup>1</sup>

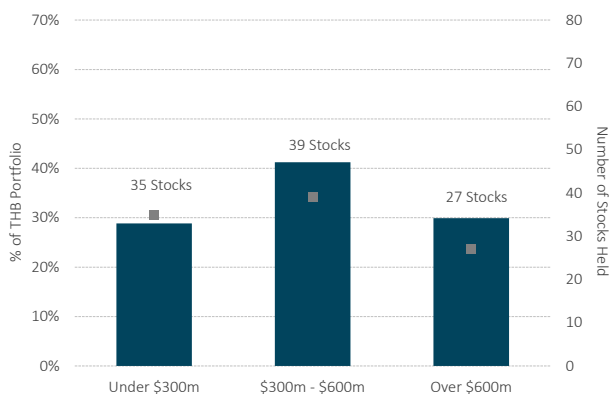
As at 28 February 2018		
	Fund	Russell Microcap®
Weighted Avg Market Cap	\$533m	\$655m
Price/Sales	1.1x	1.1x
Price/Book	1.9x	1.8x
Dividend Yield	0.8%	1.2%
Number of Securities	101	1,483
Standard Deviation	14.3%	15.1%
Sharpe Ratio	0.8	0.8
Beta	0.9	
Tracking Error	5.4	
Information Ratio	(0.1%)	

1. Portfolio statistics are reported in USD.

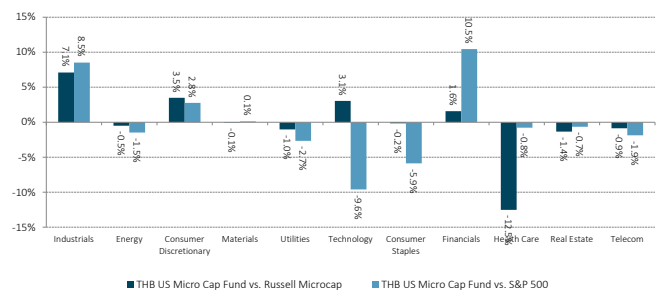
## Top 10 Holdings

Stock	Sector	Weight
Old Second Bancorp	Financials	2.7%
First Busey Corp	Financials	2.0%
MarineMax Inc	Consumer Disc	1.9%
Allied Motion Technologies	Industrials	1.9%
Insteel Industries	Industrials	1.9%
Heritage Financial Corp	Financials	1.9%
LeMaitre Vascular Inc	Healthcare	1.8%
UFP Technologies Inc	Materials	1.8%
Callaway Golf Company	Consumer Disc	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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