

# THB International Micro Cap Fund

A broadly diversified portfolio of international (excluding USA) micro caps

## Fund Snapshot

The THB International Micro Cap Fund (the Fund) invests in a broadly diversified portfolio of micro cap stocks in 22 of the 23 developed markets (ex-USA). The Fund aims to consistently outperform the MSCI World ex-USA Small Cap® Index after fees. It complements an investment in the THB US Micro Cap Fund to provide a complete global micro cap exposure.

## Why International Micro Caps?

International micro cap stocks are an underinvested and overlooked segment of the global share market and provide investors with an opportunity to generate outsized returns relative to larger capitalisation stocks. Like its US counterpart, international micro cap stocks exhibit favourable characteristics including a large universe of companies, little-to-no sell side coverage, few investment managers with a credible track record and process, and a valuable correlation benefit with respect to other segments of global equities markets. Moreover, those stocks are largely absent from global small and large cap oriented portfolios.

Over a full market cycle a well-diversified portfolio comprised of high quality international micro cap companies is expected to outperform larger cap portfolios invested in similar markets. Micro cap companies tend to grow faster than their larger counterparts and have more rapid earnings growth. THB has designed an approach to allow investors to participate in the asset class in a systematic and structured manner.

## About Thomson Horstmann & Bryant, Inc (THB)

THB is a dedicated micro cap specialist investment management firm. Founded

in 1982 and 100% employee-owned, it has 35 years' experience investing in micro and small cap companies, having successfully managed through multiple economic crises and cycles. THB began investing internationally in 2015.

## THB Investment Approach

THB International Micro Cap is a long-only, quantitative strategy with a qualitative overlay. The strategy seeks to exploit inefficiencies amongst international micro cap companies. These are companies domiciled in developed markets outside the US but including Australia.

THB uses a series of proprietary quantitative screening tools, developed over 10 years within their fundamental US Micro Cap strategy, to filter the international universe (which includes all common stock listed within these countries' primary exchanges) into an investable subset of securities. From this subset, THB creates a lower-risk and low turnover portfolio in the most inefficient and under-invested segment of the non-US equity market.

The strategy is based on the same premise as the US strategy which holds that the most inefficient and under-researched segment of the market has significant opportunities to produce returns well in excess of market benchmarks and large-capitalisation stocks.

## Investment Process

THB designed the investment process around the quantitative screening process that has formed an integral part of the US Micro Cap strategy for 20 years. Using only historical data (no forecasts), the model combines fundamental knowledge and fact checking with quantitative discipline and efficiency.

## Challenging Convention

First Australian domiciled fund investing in international micro caps

## Opportunity

Low volatility, high quality exposure to an inefficient asset class at the early stages of institutionalisation.

Potential for outsized returns as lack of analyst attention creates information void

## Strategy

Well diversified and efficient exposure, 150 stocks

Active management based on market tested investment philosophy

Through the screening process, companies are initially filtered out based on trading status and market cap ranges. Companies that are overly levered, lack profitability, do not have a minimum three years of trading history, or have excessive valuations are excluded. Companies with nonsensical financials or are mischaracterised, have high intangibles, or have excessive dilution are also removed. High risk companies, as determined by THB's proprietary risk grading process, are then excluded from the universe.

THB then creates a model portfolio by ranking the securities using a multi-factor model based on revenue trends, cash flow trends, margin profile, profitability metrics, and valuation. This aligns with THB's fundamental approach to stock selection within its US Micro Cap strategy.

Finally, the highest ranked securities are

subject to a fundamental review before being added to the portfolio, subject to portfolio constraints. The team looks for issues that warrant further consideration and/or disqualification, including philosophical alignment, accounting irregularities, legal/regulatory issues, corporate actions, environmental/ labour violations, and ESG grades. Short interest levels and geographic revenue breakdown are also reviewed.

### Key Characteristics of the Fund

The portfolio is well diversified, holding 150 stocks, and maintains broad country, economic, and sector diversification. Annually, the basket of securities and the corresponding target lists (after exclusions and THB risk grades) are quantitatively recreated to control excessive portfolio turnover (targeted around 45%).

### Key Fund Features

Fund Name	THB International Micro Cap Fund
Investment Manager	Thomson Horstmann & Bryant, Inc.
Responsible Entity	Equity Trustees Limited
Fund Inception Date	Scheduled for launch Q3 2018
Management Costs	1.25% p.a. (inclusive of GST and RITC) including all investment management fees, responsible entity fees, administration fees, custody fees and other expenses incurred in operating the Fund
Performance Fee	Nil
Buy/Sell Spread	0.50% on applications and 0.50% on withdrawals
Investment Universe	Stocks with market capitalisations of companies included in the MSCI World ex USA Micro Cap Index and the smallest 35% of the MSCI World ex USA Small Cap Index
Currency Hedging	None. The Fund does not hedge its currency exposure. The underlying investments are typically denominated in various global currencies
Offering Document	Product Disclosure Statement (PDS)
Investor Class	'Wholesale clients' as defined in the Corporations Act 2001
Minimum Application	\$250,000
Applications	Daily
Withdrawals	Daily

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## Reputation

More than 70% of client assets have been with THB for 10+ years

One of the longest established micro cap managers with 35+ years' experience

## About the Manager

Founded in 1982 and 100% employee owned  
 US\$788 AUM  
 4 Portfolio Managers with average 27 years' experience and 17 years' tenure

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