

THB US Micro Cap Fund

Monthly Report – April 2019

Market commentary

The Russell Microcap® Index (Index) returned +2.9% (AUD) in April, with all sectors exhibiting positive returns with the exception of Health Care.

Industrials (+5.0%) was the best performing sector in April, followed by Information Technology (+4.4%) and Financials (+4.2%). Health Care (-2.9%) was the worst performing sector, followed by Energy (+0.8%) and Utilities (+1.4%).

US equities continued the strong YTD performance as recession fears abated, global economic data (especially China) has improved and signals emerged that a China/US trade deal can be reached. US large cap multinationals, with approximately 50% of revenue coming from foreign countries, have led the US market.

Economic conditions are very strong and picking up momentum as effects of the US Government shutdown have passed. US Consumer Confidence climbed in April while consumer spending rose year-over-year in both February and March. The sequential rise in consumer spending indicates US consumers are moving past concerns about the shutdown and resuming rising spending patterns.

Portfolio commentary

The THB US Micro Cap Fund returned +2.6% in AUD (net of fees) in April, just slightly underperforming the Index.

The portfolio saw positive contribution from underallocation to Health Care (+0.5%), stock selection in Health Care (+0.4%), and overallocation to Industrials (+0.2%). Negative contribution came mainly from selection in Industrials (-0.3%), Materials (-0.3%), and Information Technology (-0.2%).

THB's top five performing stocks (from a contribution standpoint) were H&E Equipment Services, Inc (Industrials, +0.2%), U.S. Physical Therapy (Health Care, +0.2%), Johnson Outdoors Inc. (Consumer Discretionary, +0.2%), Zix Corporation (Information Technology, +0.2%), and Ultra Clean Holdings, Inc. (Information Technology, +0.1%).

The bottom five performing stocks (from a contribution standpoint) were MarineMax, Inc. (Consumer Discretionary, -0.2%), Landec Corporation (Consumer Staples, -0.1%), LeMaitre Vascular, Inc. (Health Care, -0.1%), BioTelemetry Inc. (Health Care, -0.1%) and AngioDynamics, Inc. (Health Care, -0.1%).

Trump's anticipated pivot to the 2020 general election on a policy level began with a meeting on Infrastructure with House Leader Pelosi and Senate leader Schumer. The two Democrats and Trump signaled a rare agreement on a \$2 trillion package that would be "big and bold". Paying for such a stimulus has yet to be decided, but since both parties could extract some political victories and solve an agreed upon problem, we are optimistic that this will move forward.

THB believes the relative lag of micro cap vs large cap (likely an effect from the ETF driven large cap market) presents a great buying opportunity. Strong economic conditions and rising levels of free cash flow are an ideal environment for micro cap companies.

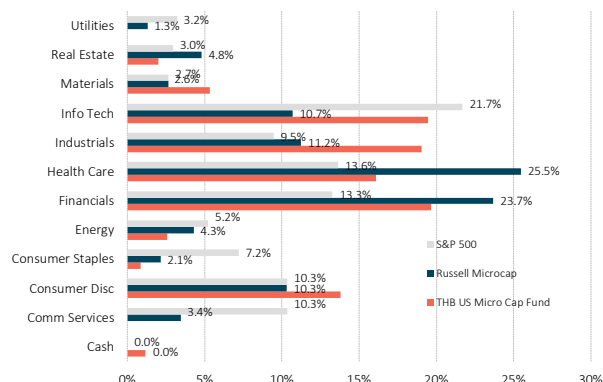
Fund details	
Benchmark	Russell Microcap® Index ¹
Inception date	5 September 2014
Fund size	A\$291 million

Performance ² – 30 April 2019			
	Fund ²	Russell Microcap®	Difference
1 month	2.6%	2.9%	(0.2%)
3 months	5.7%	8.1%	(2.4%)
1 year	5.7%	5.4%	0.3%
2 years p.a.	8.4%	9.0%	(0.6%)
3 years p.a.	16.7%	14.9%	1.8%
Since inception p.a. ³	12.7%	13.7%	(1.0%)

2. 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.

3. Fund inception date was 5 September 2014 however inception performance is calculated from 1 October 2014.

Sector allocation⁴



1. 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.

4. 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 statistics¹

As at 30 April 2019		
	Fund	Russell Microcap®
Weighted avg market cap	US\$599m	US\$656m
Price/sales	1.1x	0.9x
Price/book	1.8x	1.8x
Dividend yield	0.7%	1.2%
Number of securities	100	1,557
Standard deviation	15.2%	16.7%
Sharpe ratio	0.6	0.5
Beta	0.9	
Tracking error	5.5	
Information ratio	0.1	

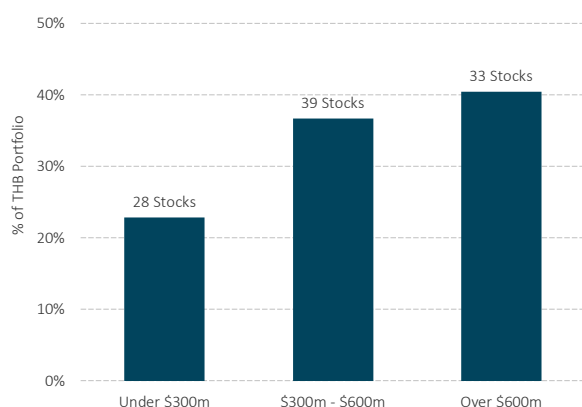
1. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Weight
Johnson Outdoors	Consumer Disc	2.6%
Par Technology	Technology	2.6%
Old Second Bancorp	Financials	2.4%
Mesa Laboratories	Technology	2.2%
Graham Corp	Industrials	2.1%
UFP Technologies	Materials	1.9%
US Physical Therapy	Healthcare	1.9%
Luminex Corp	Healthcare	1.8%
First Busey Corp	Financials	1.8%
Argan Inc	Industrials	1.7%

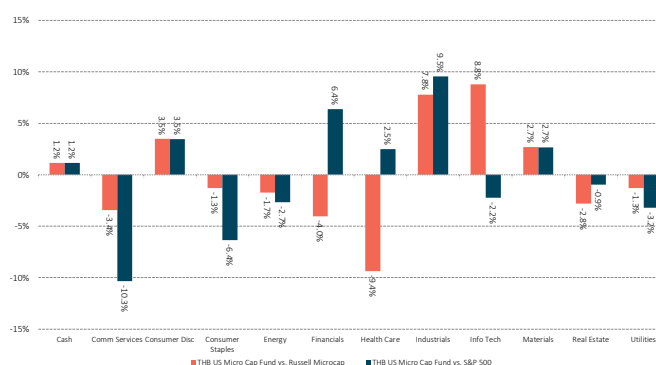
Source: THB Asset Management

Companies by market capitalisation



Source: THB Asset Management

Active sector positioning



Source: THB Asset Management

Investment strategy

THB Asset Management (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

THB
Asset Management

For more information contact:
Natalie Hall on +61 2 9328 6445 or
nataliehall@brookvine.com.au

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