

THB US Micro Cap Fund

Monthly Report – October 2019

Market commentary

The Russell Microcap® Index (Index) returned 0.4% (AUD) in October.

US equities were broadly positive this month. Earnings thus far have generally exceeded expectations, with a continued tilt by market participants to favour profitability instead of revenue growth at any cost. The nation's largest four banks reported solid earnings growth propelled by the strength from their retail units. All four noted the strength of the US Consumer and Jennifer Pieszak (JP Morgan's CFO) stated "The US Consumer is incredibly strong – consumer spending is strong, sentiment is strong." The ongoing trade negotiations with China have weighed on sentiment with NFIB Small Business Optimism and University Of Michigan Consumer Sentiment both falling slightly from the prior month's reading. Similar to what occurred during the US Government shutdown, the news flow has weighed on sentiment surveys, but is yet to cause a change in spending or expansion plans.

Information Technology (+4.1%) was the best performing sector, followed by Health Care (+3.4%) and Industrials (+2.8%). Materials (-0.5%) was the worst performing sector followed by Consumer Staples (-0.4%) and Communication Services (+0.8%).

Portfolio commentary

The THB US Micro Cap Fund returned -0.9% in AUD (net of fees) in October, underperforming the index by 1.4%.

The portfolio saw positive contribution from stock selection in Industrials (+0.6%), Materials (+0.2%) and Information Technology. Negative contribution came mainly from selection to Health Care (-1.5%), Consumer Discretionary (-0.5%) and Financials (-0.2%).

THB's top five performing stocks (from a contribution standpoint) were Ultra Clean Holdings (Information Technology, +0.7%), Graham Corporation (Industrials, +0.3%), Transact, Inc. (Industrials, +0.3%), H&E Equipment Services, Inc. (Industrials, +0.2%) and Koppers Holdings, Inc. (Materials, +0.2%).

The bottom five performing stocks (from a contribution standpoint) were Orthofix Medical, Inc. (Health Care, -0.4%), Del Taco Restaurant, Inc. (Consumer Discretionary, -0.3%), Cryolife, Inc. (Health Care, -0.2%), Carbo Ceramics (Energy, -0.2%) and Lantheus Holdings, Inc. (Health Care, -0.2%).

Micro cap equities remain one of the few valuation opportunities in listed equities. The recent shift within the market away from growth at any price (e.g. WeWork, GrubHub, Uber) and lack of earnings has been a welcome change and highlights why valuations and profitability do matter.

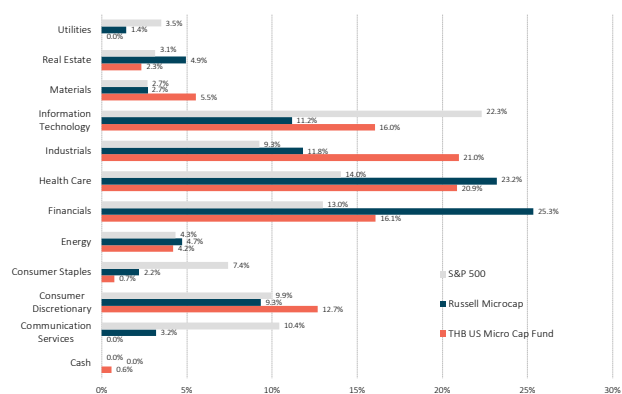
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$279 million

Performance ¹ – 31 October 2019			
	Fund ²	Russell Microcap®	Difference
1 month	(0.9%)	0.4%	(1.4%)
3 months	(2.5%)	(1.6%)	(0.9%)
1 year	(0.4%)	(0.5%)	0.0%
2 years p.a.	4.0%	4.5%	(0.4%)
3 years p.a.	13.1%	12.0%	1.2%
Since inception p.a. ²	11.5%	11.7%	(0.3%)

1. 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.

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

Sector allocation⁴



3. 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 31 October 2019		
	Fund	Russell Microcap®
Weighted avg market cap	US\$632m	US\$527m
Price/sales	1.0x	0.7x
Price/book	1.7x	1.5x
Dividend yield	0.7%	1.3%
Number of securities	100	1,468
Standard deviation	15.4%	16.8%
Sharpe ratio	0.5	0.4
Beta	0.9	
Tracking error	5.3	
Information ratio	0.2	

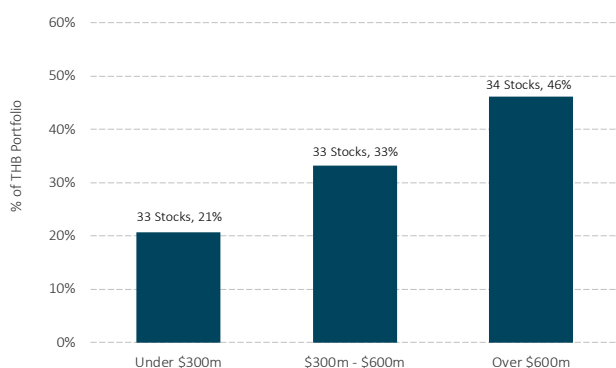
1. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Weight
PAR Technology	Technology	2.6%
Graham Corp	Industrials	2.4%
Mesa Laboratories	Health Care	2.4%
Ultra Clean Holdings	Technology	2.3%
Old Second Bancorp	Financials	2.2%
Johnson Outdoors	Consumer Disc.	2.2%
Koppers Holdings	Materials	2.1%
Methode Electronics	Technology	2.1%
Renewable Energy Group	Energy	2.1%
Addus Homecare	Health Care	2.0%

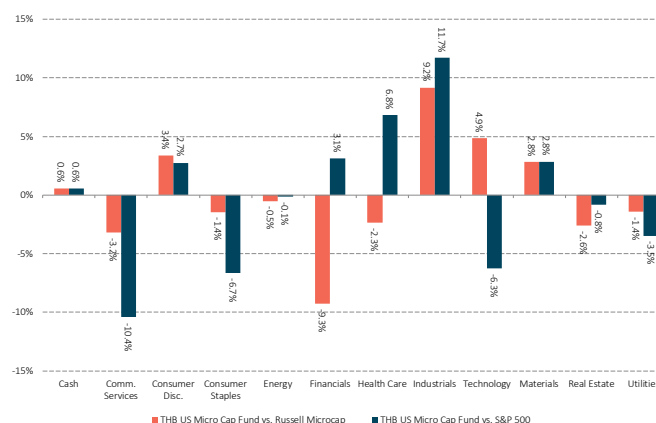
Source: THB Asset Management

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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