

# THB US Micro Cap Fund

## Monthly Report – November 2019

### Market commentary

The Russell Microcap® Index (Index) returned 6.6% (AUD) in November.

Health Care (+11.8%) was the best performing sector, followed by Communication Services (+6.7%) and Consumer Discretionary (+3.8%). Energy (-1.9%) was the worst performing sector followed by Real Estate (+0.1%) and Utilities (+0.2%).

US equities were higher this month as economic and confidence indicators signaled the expansion is firmly in place and negative impacts from the trade negotiations with China appear less than feared. The recent economic soft patch seems to be fading as IHS Manufacturing Purchasing Managers Index advanced to 52.2, a seven-month high. Underlying data behind the reading showed broad based strength and indicates the manufacturing sector (which has faced the worst of trade tensions with China) is managing well through the current situation.

Recent readings of Consumer Confidence and Small Business Optimism witnessed increases during the month and align with the PMI data mentioned above. The University of Michigan Consumer sentiment reading registered 96.8 which is a four-month high and above the median forecast of 95.7. NFIB Small Business Optimism rose to 102.4 from 101.8 in September. Overall, eight of the 10 underlying components increased and Capex plans and new hiring / sales expectations all improved. The Phase 1 trade deal announced on October 11 likely supported the increase this month.

### Portfolio commentary

The THB US Micro Cap Fund returned 4.9% in AUD (net) in November, underperforming the index by 1.7%.

The portfolio saw positive contribution from stock selection to Information Technology (+0.6%), Materials (+0.3%) and underallocation to Financials. Negative contribution mainly came from selection to Health Care (-2.0%), Energy (-0.3%) and overallocation in Industrials (-0.3%).

Biotechnology was the largest performance detractor this month and approximately 240 bps of underperformance was directly attributable to that industry group. 19 of the top 25 Russell Micro Cap Index movers were Biotechnology companies accounting for 53% of the entire index return. None of these 19 companies were profitable. This impact is highlighted by the returns of the Russell Small Cap Value and Russell Micro Cap Value indices (they have much lower Biotechnology weightings) which returned 2.33% and 2.52% (in USD) for the month respectively.

THB's top five performing stocks (from a contribution standpoint) were PAR Technology Corporation (Information Technology, +0.5%), Koppers Holdings, Inc. (Materials, +0.3%), Insteel Industries, Inc. (Industrials, +0.3%), Johnson Outdoors, Inc. (Consumer Discretionary, +0.2%) and Allied Motion Technologies, Inc. (Industrials, +0.2%).

The bottom five performing stocks (from a contribution standpoint) were ANI Pharmaceuticals, Inc. (Health Care, -0.3%), Attrion Corporation, Inc. (Health Care, -0.3%), Exterran Corp (Energy, -0.3%), Carbo Ceramics (Energy, -0.2%) and Graham Corporation (Industrials, -0.1%).

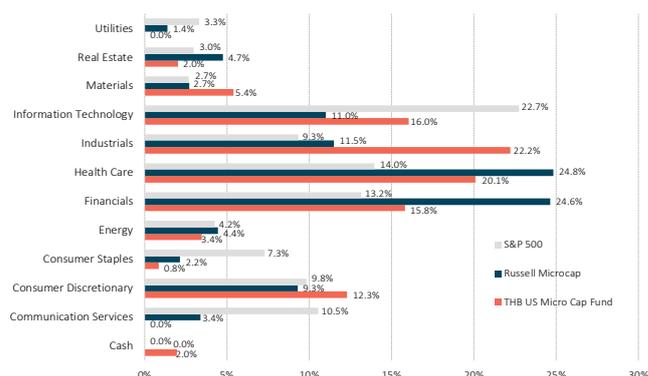
Fund details	
Benchmark	Russell Microcap® Index <sup>3</sup>
Inception date	5 September 2014
Fund size	A\$271 million

Performance <sup>1</sup> – 30 November 2019			
	Fund <sup>2</sup>	Russell Microcap®	Difference
1 month	4.9%	6.6%	(1.7%)
3 months	7.9%	9.3%	(1.5%)
1 year	5.8%	10.0%	(4.2%)
2 years p.a.	5.2%	6.1%	(0.8%)
3 years p.a.	9.1%	9.2%	(0.1%)
Since inception p.a. <sup>2</sup>	12.3%	12.9%	(0.6%)

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 allocation<sup>4</sup>



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 statistics<sup>1</sup>

As at 30 November 2019		
	Fund	Russell Microcap®
Weighted avg market cap	US\$667m	US\$583m
Price/sales	1.1x	0.7x
Price/book	1.9x	1.6x
Dividend yield	0.7%	1.3%
Number of securities	102	1,457
Standard deviation	15.3%	16.7%
Sharpe ratio	0.5	0.5
Beta	0.9	
Tracking error	5.3	
Information ratio	0.1	

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

## Top 10 holdings

Stock	Sector	Weight
PAR Technology	Technology	2.7%
Mesa Laboratories	Health Care	2.4%
Koppers Holdings	Materials	2.4%
Johnson Outdoors	Consumer Disc.	2.3%
Graham Corporation	Industrials	2.3%
Old Second Bancorp	Financials	2.2%
Ultra Clean Holdings	Technology	2.2%
Methode Electronics	Technology	2.2%
Renewable Energy Group	Energy	2.1%
Addus HomeCare	Health Care	2.1%

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

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