

THB International Micro Cap Fund – Class W

Quarterly Report – December 2019

Market commentary

The MSCI World ex USA Small Cap® Index (Index) returned 6.9% (AUD) in Q4.

Information Technology (+16.1%) was the best performing sector, followed by Industrials (+14.2%) and Health Care (+13.3%). Consumer Staples (5.7%) was the worst performing sector, followed by Real Estate (7.4%) and Utilities (7.9%).

The United Kingdom (+19.5%) was the best performing country, followed by Sweden (+17.2%) and the Netherlands (+15.4%). Australia (+4.0%), Hong Kong (+6.4%) and Israel (+6.7%) were the worst performing countries in the Index.

Developed market equities rose this quarter with European equities leading all other regions. The signing of the Phase 1 trade deal between the US and China, the UK elections that provide clarity around Brexit and better than expected economic readings, all worked to remove elements of uncertainty which had been weighing on investor sentiment. Developed market bond yields have moved higher as leading economic indicators appear to be bottoming – both signalling the global growth scare that was experienced in the beginning of the year has likely passed.

Portfolio commentary

The THB International (ex-USA) Micro Cap Fund- Class W returned 9.3% in AUD (net of fees) in Q4, outperforming the Index by 2.4%.

Contributors to the portfolio's performance were positive stock selection in United Kingdom, Japan and Italy. Detractors from performance included stock selection in Sweden, as well as overallocation to Australia and Japan.

From a sector perspective, positive contribution mainly came from overallocation to Information Technology, under allocation to Real Estate and stock selection in Materials. Stock selection in Consumer Staples, Consumer Discretionary and Communication Services were the primary detractors in performance.

THB's top five performing stocks (from a contribution standpoint) were Judges Scientific plc (United Kingdom, Industrials, +0.8%), El.En. S.p.A. (Italy, Health Care, +0.5%), Kainos Group Plc (United Kingdom, Information Technology, +0.4%), Fukui Computer Holdings. Inc. (Japan, Information Technology, +0.4%) and GB Group Plc. (United Kingdom, Information Technology, +0.4%).

The bottom five performing stocks (from a contribution standpoint) were Smartgroup Corporation Ltd. (Australia, Industrials, -0.4%), RaySearch Laboratories AB (Sweden, Health Care, -0.2%), HABA Laboratories (Japan, Consumer Staples, -0.2%), Dr. Hoenle AG (Germany, Industrials, -0.1%) and CellaVision AB (Sweden, Health Care, -0.1%).

During the quarter, fifteen acquisitions were made. Five companies initiated new share repurchase programs. THB's well capitalised portfolio companies continue to deploy capital by repurchasing their own shares and expanding through acquisitions.

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) ³
Inception date ²	23 August 2018
Fund size	A\$75.4 million

Net performance ¹ – 31 December 2019			
	Fund	MSCI World ex USA Small Cap®	MSCI World ex USA Micro Cap®
1 month	1.4%	0.7%	1.5%
3 months	9.3%	6.9%	6.9%
CYTD	32.0%	25.6%	20.1%
1 year	32.0%	25.6%	20.1%
Since inception ²	4.7%	7.1%	3.5%

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. Figures in the tables may not sum correctly due to rounding.

2. Fund inception date was 23 August 2018 however inception performance for this class is calculated from 7 September 2018.

Companies by market capitalisation



Source: THB Asset Management

3. The MSCI World ex-USA Small Cap Total Return Index (AUD) captures small cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 2,557 constituents, the Index covers approximately 14% of the free float-adjusted market capitalisation in each country. Source: MSCI

Stocks in focus

Vetropack Holding AG (VET-CH)

Founded in 1911, Vetropack Group is a leading glass packaging manufacturer in Europe producing 4.5 billion units of glass containers a year. Over the past few years, the company has reaccelerated its top line, driven by both higher end-market demand and production capacity expansion. The overall glass packaging market is seeing higher growth as consumers are becoming increasingly health-conscious and seek reusable, environmentally friendly containers. Glass containers require no plastic or chemical liner and are perceived as best for taste preservation, with almost no chemical interaction that can affect the quality of the food and beverages. A good example of this is the rediscovery of glass bottles for fresh milk. Glass is also 100% recyclable and the most natural and sustainable material as it is predominantly made from sand and other natural ingredients. The company was a pioneer in sustainability and was the first in Switzerland to set up a recycling system for used glass in the 1970s. Recycled glass has now become the main raw material in its glass production, over 60% on average across all its subsidiaries. Vetropack stands out with its strong balance sheet with net cash position and 21% EBITDA margin.

Kainos Group PLC (KNOS-GB)

Kainos delivers digital technology/transformation solutions to the public and private sectors in the UK. The company has been involved from the early stages of public sector digitisation, helping to deliver more than 70 projects to date. Some of these are exemplar projects including, the Individual Electoral Registration Digital Service for Cabinet Office, a Driver's Information Enquiry service for DVLA and the back-office processing of passport applications. Kainos is also the leading European partner for Workday, Inc., responsible for implementing Workday's Software-as-a-Service (SaaS) platform for enterprise and government customers. According to research from IT consultancy Infosys, the UK is significantly ahead of the global average in their digital transformation including other developed markets such as the U.S. and Germany. The research states that to become digitally advanced, organisations need to run multiple digital initiatives at scale at the same time. The UK's supremacy is primarily led by telecommunications and technology organisations, as 5G is implemented. Kainos doubled its revenues over the past few years and is poised to continue to benefit from the on-going megatrend toward digitalisation and shift to 5G. The company has no debt and \$55M in cash on the balance sheet.

Top 10 holdings⁴

Stock	Sector/Country	Portfolio weight
Judges Scientific	Industrials/UK	1.8%
Gurit Holdings AG	Materials/Switzerland	1.5%
El.En. S.p.A.	Health Care/Italy	1.4%
4imprint Group	Communications/UK	1.3%
Eolus Vind AB	Industrials/Sweden	1.3%
SeSa S.p.A.	Technology/Italy	1.3%
Tokyo Rakutenchi Co.	Real Estate/Japan	1.3%
S-Pool, Inc.	Industrials, Japan	1.3%
u-blox Holding AG	Technology/Switzerland	1.3%
AB Dynamics	Consumer Disc./UK	1.2%

Source: THB Asset Management

Portfolio statistics⁵

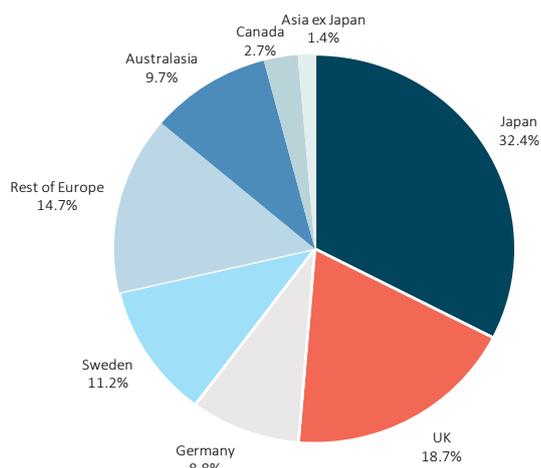
As at 31 December 2019		
	Fund	Benchmark
Weighted avg market cap	US\$559m	US\$2,726m
Price/sales	1.5x	1.0x
Price/book	3.1x	1.5x
Dividend yield	1.8%	2.5%
Number of securities	150	2,557
Standard deviation	14.5%	12.4%
Sharpe ratio	1.1	0.6
Beta	1.1	
Tracking error	5.4	
Information ratio	1.5	

Source: THB Asset Management

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.

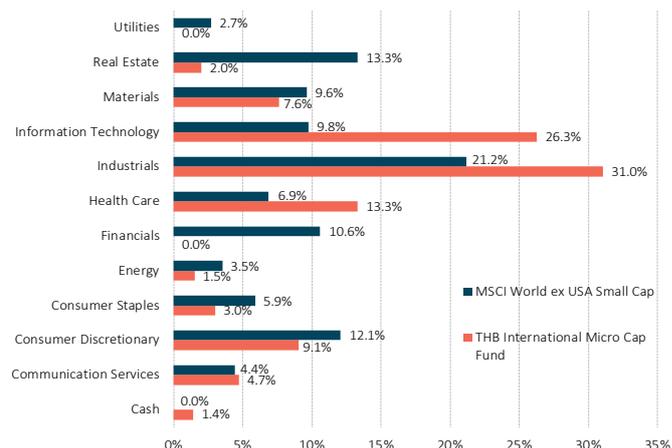
5. Portfolio statistics are reported in USD.

Country allocation⁶



Source: THB Asset Management

Sector allocation⁶



Source: THB Asset Management

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Investment strategy

THB Asset Management (THB) is an employee-owned boutique investment management firm based in Connecticut specialising in smaller company strategies. THB's International 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, limited investable options, resource constraints and difficulty in identifying value. THB utilises a disciplined, fundamental approach that blends both qualitative and quantitative methods to construct a well-diversified, low-risk portfolio of companies that possess attractive operating metrics, yet with comparable valuation to the MSCI World ex USA Small Cap[®] Index.

BROOKVINE

THB
Asset Management

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