

# THB Asset Management

## THB International (ex-USA) Micro Cap Fund

### INVESTING IN

International  
micro cap stocks  
(excluding USA)

### BASED IN

Connecticut, USA

### FIRM INVESTING SINCE

1982

### FUND INCEPTION

2018

37

YEARS INVESTING AS A FIRM

20+ year

TRACK RECORD IN MICRO CAPS

US\$368m

FIRM AUM AT 31 MARCH 2020

-8.9% p.a.

SINCE INCEPTION<sup>1</sup>

US\$427m

WEIGHTED AVG MKT CAP

A\$61m

AUM IN AUSTRALIAN FUND  
AS AT 31 MARCH 2020

150

STOCKS IN PORTFOLIO

Past performance is not an indicator of future performance.

“High quality exposure to an inefficient asset class at the early stages  
of institutionalisation”

Christopher Cuesta, CEO and Portfolio Manager, THB

## The THB International (ex-USA) Micro Cap Fund invests in a broadly diversified portfolio of developed market micro cap stocks.

### 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.

### About THB

THB Asset Management (THB) is a dedicated micro cap specialist investment management firm. Founded in 1982 and 100% employee-owned, it has 37 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

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.

### THB International (ex-USA) Micro Cap Fund Class W

#### Net Performance as at 31 March 2020

	Fund <sup>3</sup>	MSCI World ex USA Small Cap*	MSCI World ex USA Micro Cap*
1 month	(13.6%)	(13.9%)	(13.1%)
3 months	(18.6%)	(17.8%)	(18.3%)
CYTD	(18.6%)	(17.8%)	(18.3%)
1 year	(4.0%)	(6.0%)	(8.5%)
Since inception p.a. <sup>3</sup>	(8.9%)	(6.5%)	(9.6%)

Source: Link Fund Solutions

1. Fund inception date was 23 August 2018 however inception performance is calculated from 7 September 2018.

2. 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 2,533 constituents, the Index covers approximately 14% of the free float-adjusted market capitalisation in each country. Source: MSCI.

3. 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.

## THB International (ex-USA) Micro Cap Fund

APIR CODE  
ETL3238AU

INVESTMENT MANAGER  
THB Asset Management

RESPONSIBLE ENTITY  
Equity Trustees Limited

FUND INCEPTION DATE  
23 August 2018

BENCHMARK  
MSCI World ex USA Small Cap\* Index<sup>2</sup>

FUND SIZE  
A\$61 million

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

INVESTOR CLASS  
'Wholesale clients' as defined in the Corporations Act 2001 and Retail Clients investing indirectly via a platform (master trust or wrap account)

MINIMUM APPLICATION  
\$250,000 or via platform

APPLICATIONS & WITHDRAWALS  
Daily

## 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

## Reputation

More than 40% of client assets have been with THB for 10+ years

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

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%).

**THB leverages a proprietary multi-factor quality assessment when reviewing new opportunities, including management quality, financial strength, industry position, and ESG factors.**

Signatory of:

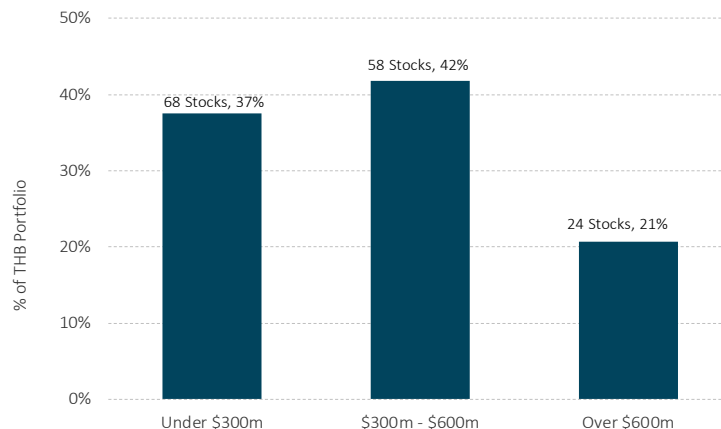


## Top 10 holdings<sup>4</sup>

Stock	Sector	Country	Weight
Judges Scientific	Industrials	UK	1.7%
Gurit Holding AG	Materials	Switzerland	1.6%
SeSa S.p.A.	Technology	Italy	1.5%
Eolus Vind AB	Industrials	Sweden	1.5%
Tristel	Health Care	UK	1.4%
Avon Rubber	Industrials	UK	1.4%
NEXUS AG	Health Care	Germany	1.3%
Vetropack Holding AG	Materials	Switzerland	1.2%
Biotage AB	Health Care	Sweden	1.2%
S-Pool	Industrials	Japan	1.2%

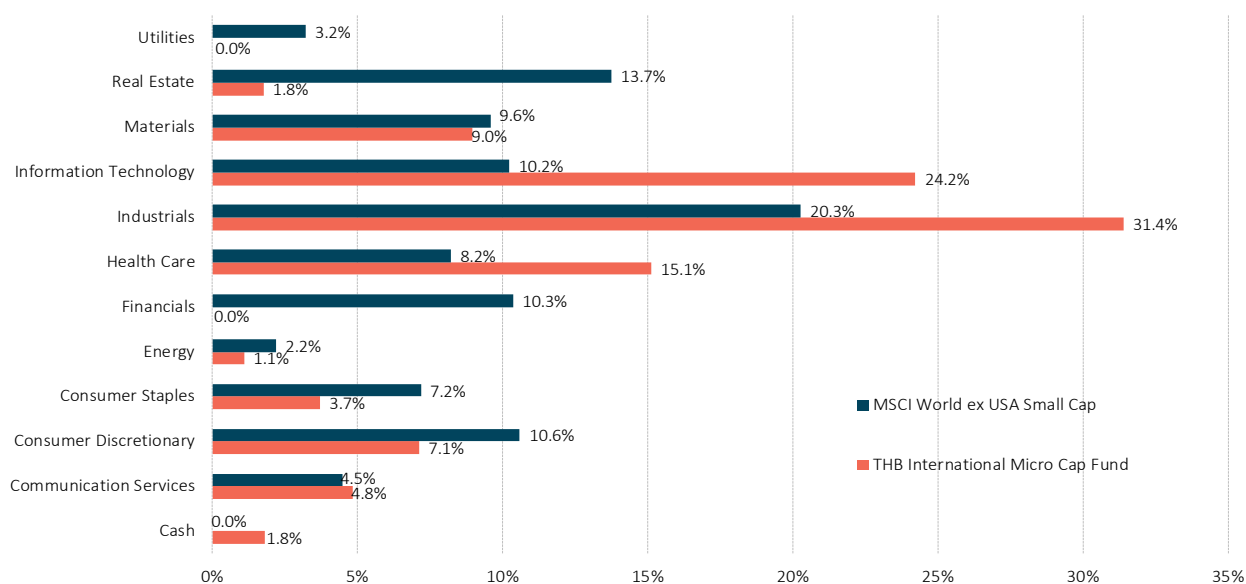
Source: THB Asset Management

## Companies by market capitalisation



Source: THB Asset Management

## Sector allocation as at 31 March 2020<sup>4</sup>



Source: THB Asset Management

## Portfolio statistics in USD as at 31 March 2020

	Fund	MSCI World ex USA Small Cap <sup>®</sup>
Weighted avg market cap	US\$427m	US\$2,146m
Prices/sales	1.1x	0.7x
Price/book	2.2x	1.1x
Dividend yield	2.5%	3.4%
Number of securities	150	2,533
Standard deviation	17.5%	15.5%
Sharpe ratio	0.5	0.02
Beta	1.1	
Tracking error	5.4	
Information ratio	1.4	

Source: THB Asset Management

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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.

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