

# THB US Micro Cap Fund

## Monthly Report – April 2020

### Market commentary

The Russell Microcap® Index (Index) returned 7.7% in April in AUD.

Consumer Discretionary (+27.4%) was the best performing sector, followed by Health Care (21.1%) and Information Technology (20.1%). Utilities (-1.8%) was the worst performing sector followed by Financials (+6.9%) and Real Estate (+7.0%).

US Equities were broadly higher this month with smaller capitalisation equities leading the move up. The Russell Small and Micro Cap benchmarks experienced their second-best month on record (April 2009 was the highest) since their inception in 1984 and 1998, respectively. The equally weighted S&P 500 outperformed the normal capitalisation weighted S&P 500 by 1.6%, indicating good breadth in the markets.

Stocks rebounded off their March lows as virus mitigation efforts were effective, potential solutions appeared promising, fiscal/monetary programs increased, and overall corporate earnings reports were better than anticipated. Early uncertainty regarding the spread of the virus ebbed as the month progressed and equity markets began to act in a more rational manner. While there continues to be many unknowns about the virus, the markets began to discount the unprecedented amount of monetary and fiscal stimulus being utilised to combat the effects of the virus and focused on reopening efforts underway in parts of the country. So far, approximately \$8.3 trillion or 39% of US GDP has been put in place to offset a degradation in economic and market conditions.

### Portfolio commentary

The THB US Micro Cap Fund returned 11.6% in AUD (net of fees) in April, outperforming the Index by 3.8%.

The portfolio saw positive contribution from stock selection in Consumer Discretionary (+1.0%), overallocation to Consumer Discretionary (+1.1%) and underallocation to Financials (+1.1%). Negative contribution came from selection to Health Care (-1.1%), underallocation to Health Care (-1.0%) and overallocation to Industrials (-0.5%).

THB's top five performing stocks (from a contribution standpoint) were PAR Technology Corporation (Information Technology, +0.9%), BJ's Restaurants, Inc. (Consumer Discretionary, +0.9%), Jack in the Box, Inc. (Consumer Discretionary, +0.8%), Cardlytics, Inc. (Communication Services, +0.7%) and Ultra Clean Holdings, Inc. (Information Technology, +0.6%).

The bottom five performing stocks (from a contribution standpoint) were Hyster-Yale Materials, Inc. (Materials, -0.1%), Miller Industries, Inc. (Industrials, -0.1%), TimkenSteel Corp (Materials, -0.1%), Orion Group Holdings, Inc. (Industrials, -0.1%) and Information Services Group, Inc. (Information Technology, -0.1%).

THB continued to make changes to the portfolio this month as the pullback created many mispriced, attractive opportunities. During the month 10 new holdings were added to the strategy and THB exited 10 positions. All holdings are well capitalised and have significant amounts of liquidity to weather disruptions caused by the virus. THB was able to capitalise on the March pullback and many of the newer positions contributed to the strong April performance.

Real time US economic data is showing signs of improvement from the April lows as gasoline demand and airline travel data have shown modest improvement and by 8 May, approximately 50% of the US will likely be open or entering the reopening process. However, within that

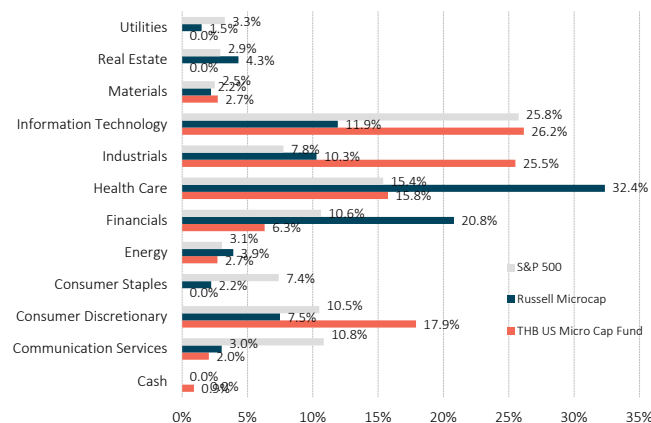
Fund details	
Benchmark	Russell Microcap® Index <sup>3</sup>
Inception date	5 September 2014
Fund size	A\$155 million

Performance <sup>1</sup> – 30 April 2020			
	Fund <sup>2</sup>	Russell Microcap®	Difference
1 month	11.6%	7.7%	3.8%
3 months	(17.6%)	(15.9%)	(1.6%)
1 year	(14.6%)	(10.5%)	(4.0%)
2 years p.a.	(4.9%)	(2.9%)	(2.1%)
3 years p.a.	0.1%	2.1%	(1.9%)
Since inception p.a. <sup>2</sup>	7.6%	8.8%	(1.2%)

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 table may not sum correctly due to rounding.

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.

scenario, there will be winners and losers. Individual companies may experience the "V" or "U" shaped recoveries while some do not recover at all. THB is actively monitoring and processing all economic and company data points, noting any changes that may impact the holdings and will continue to make any necessary adjustments to best position the strategy for strong forward returns.

## Portfolio statistics<sup>1</sup>

As at 30 April 2020		
	Fund	Russell Microcap®
Weighted avg market cap	US\$801m	US\$597m
Price/sales	1.9x	0.0x
Price/book	1.6x	1.3x
Dividend yield	0.7%	1.5%
Number of securities	100	1,446
Standard deviation	19.1%	19.6%
Sharpe ratio	0.01	0.05
Beta	0.9	
Tracking error	5.5	
Information ratio	(0.2)	

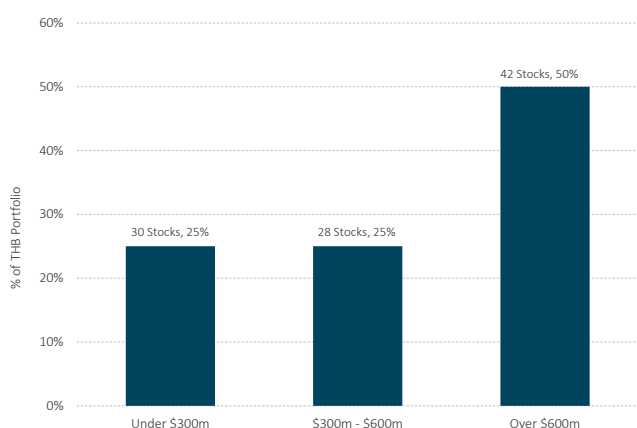
1. Portfolio statistics are reported in USD. Source: THB Asset Management

## Top 10 holdings

Stock	Sector	Composite weight
PAR Technology Corp	Technology	2.3%
Johnson Outdoors	Consumer Disc.	2.3%
Perficient	Technology	2.1%
BJ's Restaurants	Consumer Disc.	2.1%
Cardlytics	Communications	2.0%
Hyster-Yale Materials	Industrials	1.9%
ePlus	Technology	1.9%
Jack in the Box	Consumer Disc.	1.8%
Ultra Clean Holdings	Technology	1.8%
Luminex	Health Care	1.8%

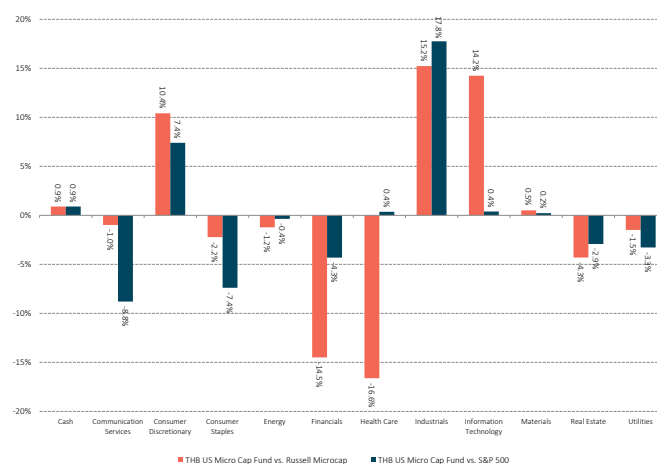
Source: THB Asset Management

## 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**

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Asset Management

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