

THB US Micro Cap Fund

Monthly Report – May 2020

Market commentary

The Russell Microcap® Index (Index) returned 5.2% in May in AUD.

Consumer Discretionary (+13.3%) was the best performing sector, followed by Health Care (+13.3%) and Communication Services (+8.9%). Energy (-4.9%) was the worst performing sector followed by Real Estate (-0.9%) and Financials (-0.6%).

US equities continued to move higher this month with leadership again coming from smaller capitalisation stocks. Throughout the country, various states began or continued efforts to reopen their local economies. The diverse nature of the country with varying levels of population density has led to wide ranging impacts from the COVID-19. Three (NY, NJ, CT) of the fifty states have experienced 33% of all cases and 44% of all deaths in the US while many other areas of the country have experienced limited impact.

To date, virus mitigation efforts have been effective and worst-case fears regarding deaths and mortality rates have thankfully not been realised. As of May 20, the CDC estimates the US fatality rate is 0.26% and people under 50 years old who contract the virus have a 99.97% survival rate. Higher frequency, alternative data (traffic congestion, air travel, restaurant bookings, mortgage applications) is indicating a bottoming in economic activity. All five regional Fed surveys have pointed to a pickup in manufacturing activity during the month. Those increases highlight the breadth of economic recovery and should start to drive more traditional economic readings such as ISM in the coming months. Numbers are bouncing off extremely low levels yet reflect the fiscal and monetary stimulus efforts are having the desired effect of bridging the gap until normalised economic activity resumes.

Portfolio commentary

The THB US Micro Cap Fund returned 4.8% in AUD (net of fees) in May, underperforming the Index by 0.3%.

The portfolio saw positive contribution from underallocation to Financials (+1.0%), stock selection to Communication Services (+0.9%) and Information Technology (+0.9%). Negative contribution came from selection to Health Care (-1.4%), Consumer Discretionary (-0.5%) and underallocation to Health Care (-1.1%).

THB's top five performing stocks (from a contribution standpoint) were Cardlytics, Inc. (Communication Services, +1.2%), PAR Technology Corporation (Information Technology, +0.8%), Century Communities, Inc. (Consumer Discretionary, +0.6%), M/I Homes, Inc. (Consumer Discretionary, +0.4%) and Verra Mobility Corp (Information Technology, +0.4%).

The bottom five performing stocks (from a contribution standpoint) were Hill International, Inc. (Industrials, -0.4%), Graham Corporation (Industrials, -0.2%), Information Services Group, Inc. (Information Technology, -0.2%), Transcat, Inc. (Industrials, -0.2%) and Luna Innovations, Inc. (Information Technology, -0.2%).

The sharp, simultaneous movements of both the economy and markets have created a large universe of mispriced stocks. THB continues to believe that many aspects of the COVID-19 effect on the economy will resemble a natural disaster-acute, but short duration disruptions to certain parts of the economy. Secular changes, adaptation and creative destruction, accelerated by the virus, will create opportunities for well capitalised, competent management teams.

During the month, top holding BJ's Restaurant completed a private

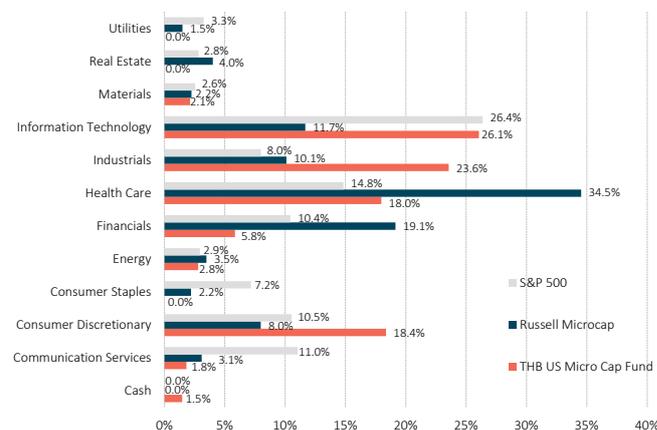
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$114 million

Performance ¹ – 31 May 2020			
	Fund ²	Russell Microcap®	Difference
1 month	4.8%	5.2%	(0.3%)
3 months	(7.7%)	(8.6%)	0.9%
1 year	(6.3%)	(0.6%)	(5.7%)
2 years p.a.	(5.4%)	(3.7%)	(1.7%)
3 years p.a.	2.3%	4.4%	(2.2%)
Since inception p.a. ²	8.4%	9.6%	(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 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.

capital raise which will allow them to rapidly expand their footprint, gain a strategic partner (Ron Shaich – founder of Panera Bread) and capitalise on dislocations within the casual dining space. Almost 25% of small restaurants may not reopen which will enable strong, well capitalised franchises like BJ's Restaurant to gain share. Three portfolio companies announced new share repurchase authorisations this month. First Bancshares Inc., Kadant Inc. and EPlus Inc. announced repurchase authorisations of \$15M, \$20M and \$35M, respectively.

Portfolio statistics⁵

As at 31 May 2020		
	Fund	Russell Microcap®
Weighted avg market cap	US\$895m	US\$671m
Price/sales	1.9x	0.0x
Price/book	1.8x	1.4x
Dividend yield	0.7%	1.4%
Number of securities	103	1,437
Standard deviation	20.4%	20.5%
Sharpe ratio	0.2	0.2
Beta	1.0	
Tracking error	5.5	
Information ratio	(0.1)	

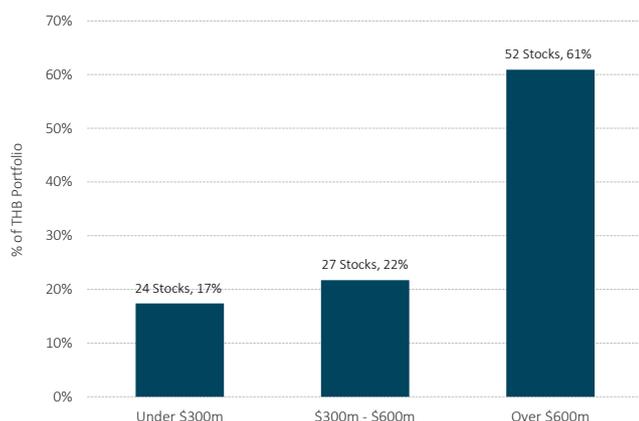
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Composite weight
PAR Technology	Technology	2.7%
Perficient	Technology	2.3%
Upland Software	Technology	2.1%
Johnson Outdoors	Consumer Disc.	2.0%
Ultra Clean Holdings	Technology	2.0%
BJ's Restaurants	Consumer Disc.	2.0%
Century Communities	Consumer Disc.	1.9%
ePlus	Technology	1.9%
Cardlytics	Communications	1.8%
Renewable Energy Group	Energy	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.

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THB
Asset Management

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