

# THB International Micro Cap Fund – Class W

## Monthly Report – August 2020

### Market commentary

The MSCI World ex USA Small Cap® Index (Index) returned 4.0% (AUD) in August.

Consumer Discretionary (+13.5%) was the best performing sector, followed by Communication Services (+12.3%), and Energy (+9.4%). Utilities (+3.7%) was the worst performing sector, followed by Consumer Staples (+4.6%), and Real Estate (+4.9%).

Australia (+10.5%) was the best performing country, followed by Norway (+10.3%), and the Netherlands (+8.6%). Singapore (+2.3%), Italy (+4.5%), and France (+4.8%) were the worst performing countries in the Index.

Developed market equities rallied this month with leadership coming from smaller capitalisation companies. Increased testing capabilities has allowed many developed market economies to move forward with reopening plans while market participants remain hopeful that the race towards a COVID-19 vaccine ends successfully in the near future. Tensions between China, the US and other developed market countries continue to simmer and will likely intensify as we near the US presidential election. Trade disputes are making headlines every week with the focus on technology firms and potential compromises to national security. Foxconn Chairman Young Liu is increasing the firm's manufacturing presence in India, Southeast Asia and the Americas and stated China's "days as the world's factory are done". Global manufacturing footprints and global supply chains will continue to realign, creating both risks and opportunities.

### Portfolio commentary

The THB International (ex-USA) Micro Cap Fund - Class W returned 4.7% (net of fees) in August, outperforming the Index by 0.7%.

Contributors to the portfolio's performance were positive stock selection in Germany, Sweden, and Italy. Detractors from performance included stock selection in Japan, Australia, and Switzerland.

From a sector perspective, primary contributors to performance mainly came from stock selection in Health Care, Information Technology and Energy. Stock selection in Industrials, overallocation to Information Technology and underallocation to Consumer Discretionary were the primary detractors of performance this month.

THB's top five performing stocks (from a contribution standpoint) were Secunet Security Networks AG. (Germany, Information Technology, +0.4%), Verbio Vereinigte BioEnergie AG (Germany, Energy, +0.4%), Kogan.com Ltd. (Australia, Consumer Discretionary, +0.3%), Soiken Holdings Inc. (Japan, Consumer Staples, +0.3%) and SeSa S.p.A. (Italy, Information Technology, +0.3%).

The bottom five performing stocks (from a contribution standpoint) were Gremz, Inc. (Japan, Industrials, -0.4%), u-blox Holdings AG (Switzerland, Information Technology, -0.2%), Comture Corporation (Japan, Information Technology, -0.2%), Retail Partners Co. Ltd. (Japan, Consumer Staples, -0.1%) and Double Standard, Inc (Japan, Information Technology, -0.1%).

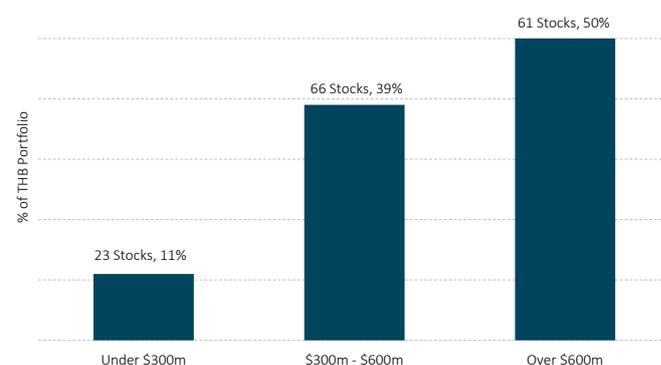
Four portfolio holdings announced new share repurchase authorisations and seven announced new acquisitions. THB's well capitalised holdings continue to invest cash flows in multiple ways to increase shareholder value. HiQ international, a Swedish IT consultant received a hostile bid

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) <sup>2</sup>
Inception date	23 August 2018
Fund size	\$77 million

Net performance – 31 August 2020			
	Fund <sup>1</sup>	MSCI World ex USA Small Cap <sup>2</sup>	MSCI World ex USA Micro Cap <sup>3</sup>
1 month	4.7%	4.0%	5.2%
3 months	4.2%	1.8%	5.0%
CYTD	(0.9%)	(7.7%)	(4.0%)
1 year	10.7%	1.0%	4.2%
Since inception	2.6%	0.5%	0.2%

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. 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

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 2,506 constituents, the Index covers approximately 14% of the free float-adjusted market capitalisation in each country. Source: MSCI

3. The MSCI World ex USA Micro Cap Index captures micro cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 4,770 constituents, the index covers approximately 1% of the free float-adjusted market capitalisation in each country.

from private equity this month. Triton Partners, a large European PE firm offered 70 SEK per share for HiQ which was a 29% premium on the day and 125% higher than the March 2020 low of 31 SEK. HiQ is an IT consultant with specialisation in the convergence of media and technology. THB believes the hostile bid and significant premium is reflective of the undervalued nature of the asset class, inefficient markets, and appealing nature of high-quality niche businesses. THB has held the belief that an M&A cycle is likely to start again. The ingredients are in place with sizeable amounts of private equity dry powder on the sidelines and willing corporate buyers and sellers emerging from the COVID-19 situation.

## Portfolio statistics<sup>4</sup>

As at 31 August 2020		
	Fund	Benchmark
Weighted avg market cap	US\$779m	US\$2,669m
Price/sales	1.8x	0.8x
Price/Book	3.4x	1.3x
Dividend yield	1.5%	2.7%
Number of securities	150	2,505
Standard deviation	18.4%	16.3%
Sharpe ratio	0.8	0.4
Beta	1.1	
Tracking error	5.4	
Information ratio	1.5	

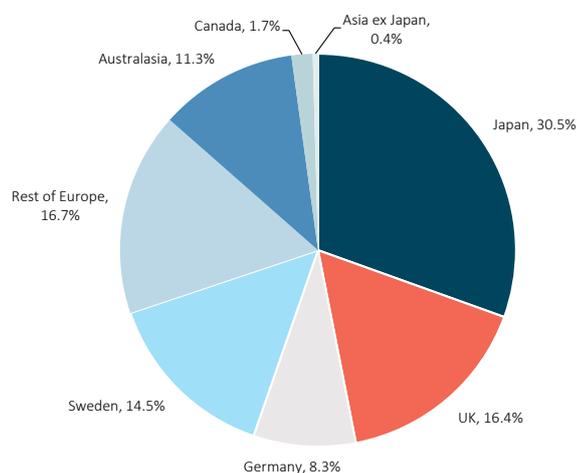
Source: THB Asset Management

## Top 10 holdings<sup>5</sup>

Stock	Sector/Country	Portfolio weight
SeSa S.p.A.	Technology/Italy	1.6%
secunet Security Networks	Technology/Germany	1.6%
Ramelius Resources	Materials/Australia	1.5%
Gurit Holding	Materials/Switzerland	1.4%
Eolus Vind AB	Industrials/Sweden	1.4%
VERBIO Vereinigte	Energy/Germany	1.4%
Avon Rubber	Industrials/UK	1.3%
Sectra AB	Health Care/Sweden	1.3%
Kogan.com	Consumer Disc./Australia	1.3%
Biotage AB	Health Care/Sweden	1.2%

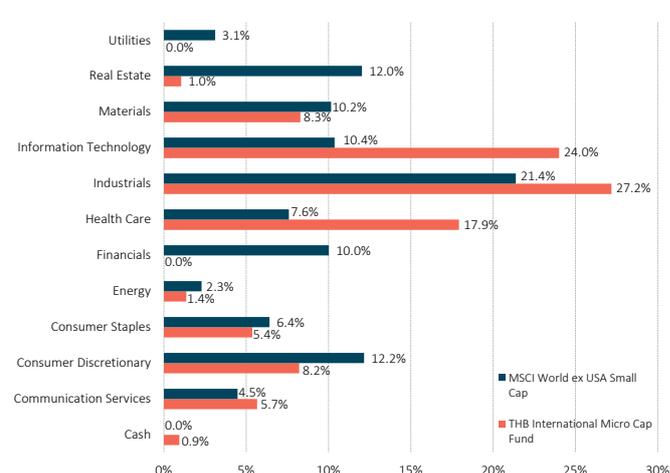
Source: THB Asset Management

## Country allocation<sup>5</sup>



Source: THB Asset Management

## Sector allocation<sup>5</sup>



Source: THB Asset Management

4. Portfolio statistics are reported in USD.

5. 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.

## 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<sup>®</sup> Index.

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