

THB US Micro Cap Fund

Monthly Report – August 2020

Market commentary

The Russell Microcap® Index (Index) returned 2.7% in August in AUD.

Real Estate (+13.3%) was the best performing sector, followed by Industrials (+12.6%), and Consumer Discretionary (+12.0%). Materials (+0.3%) was the worst performing sector followed by Information Technology (+1.3%) and Utilities (+1.6%).

US equities rose this month with leadership from smaller capitalisation equities. Economic releases, high frequency data points and company earnings releases all remain supportive of continued recovery. The S&P 500 index hit an all-time high joining the technology heavy Nasdaq which reached an all-time high the previous month. Smaller capitalisation indices remain approximately 10-13% below prior record highs but have exhibited strong performance since the March lows. The Federal Reserve announced a new approach for setting monetary policy which seeks inflation that “averages” 2%, implying it will allow for periods of higher inflation. In an attempt to combat perpetual low levels of inflation, the Federal Reserve will now let employment and price inflation run hotter before they take any action. New home sales (901K annualised pace) reached a 14 year high this month and median sales prices increased 7.2% from a year ago. Consumers are sitting on ~\$3.5T in savings and household net worth will likely register a new all-time high when Q3 data is released.

COVID-19 will undoubtedly continue to create pockets of dislocations in the economy, but the majority of consumers and businesses are faring well and are optimistic about the future (home buying is typically a meaningful percentage of a person’s net worth and only takes place when they are confident about their future prospects). Conventional wisdom and market pundits clearly did not appreciate the strength of the US consumer, the rapid adaptation of US corporations and the resiliency of small businesses. Early predictions of an elongated 2008 recovery pattern failed to recognise real time data and facts which countered that narrative.

Portfolio commentary

The THB US Micro Cap Fund returned 4.4% in AUD (net of fees) in August, outperforming the Index by 1.6%.

The portfolio saw positive contribution from stock selection in Information Technology (+1.2%), overallocation to Industrials (+0.8%), and Consumer Discretionary (+0.4%). Negative contribution came from selection in Industrials (-1.0%), Consumer Discretionary (-0.3%), and overallocation to Information Technology (-0.6%).

THB’s top five performing stocks (from a contribution standpoint) were Digital Turbine, Inc. (Information Technology, +1.4%), BJ’s Restaurants, Inc. (Consumer Discretionary, +0.9%), PAR Technology Corporation (Information Technology, +0.6%), Fulgent Genetics, Inc. (Health Care, +0.6%) and Boot Barn Holdings, Inc. (Consumer Discretionary, +0.4%).

The bottom five performing stocks (from a contribution standpoint) were Ultra Clean Holdings, Inc. (Information Technology, -0.5%), Ichor Holdings, Ltd. (Information Technology, -0.3%), Meridian Bioscience, Inc. (Health Care, -0.3%), Sonos, Inc. (Consumer Discretionary, -0.2%) and Luminex Corp (Health Care, -0.2%).

THB is pleased with the increasing breadth of the market and its portfolio. Performance this month was driven by a mix of companies benefiting from elements of creative destruction and trends accelerated by COVID-19. THB has a sizeable backlog of new, attractively priced opportunities that the team is working on. Two portfolio holdings announced acquisitions this month, displaying confidence about the future and their growth prospects.

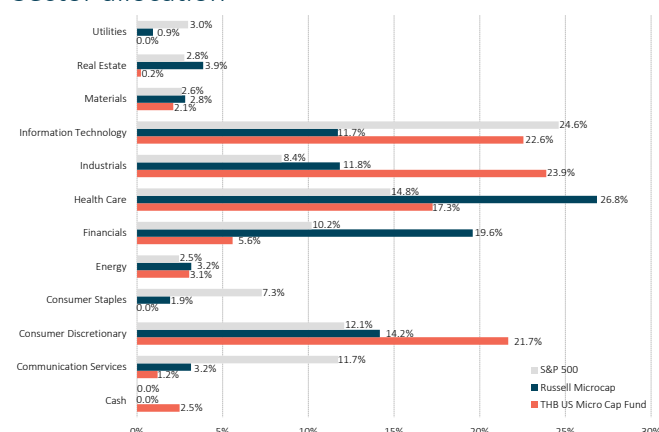
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$68.6 million

Performance ¹ – 31 August 2020			
	Fund ²	Russell Microcap®	Difference
1 month	4.4%	2.7%	1.6%
3 months	5.2%	2.1%	3.0%
1 year	(1.6%)	0.5%	(2.1%)
2 years p.a.	(8.2%)	(7.4%)	(0.8%)
3 years p.a.	6.1%	6.1%	(0.0%)
5 years p.a.	6.9%	5.2%	1.7%
Since inception p.a. ²	8.9%	9.6%	(0.7%)

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.

Portfolio statistics⁵

As at 31 August 2020		
	Fund	Russell Microcap®
Weighted avg market cap	US\$892m	US\$592m
Price/sales	0.9x	0.6x
Price/book	1.9x	1.4x
Dividend yield	0.6%	1.5%
Number of securities	104	1,310
Standard deviation	20.4%	20.3%
Sharpe ratio	0.4	0.3
Beta	1.0	
Tracking error	5.9	
Information ratio	0.1	

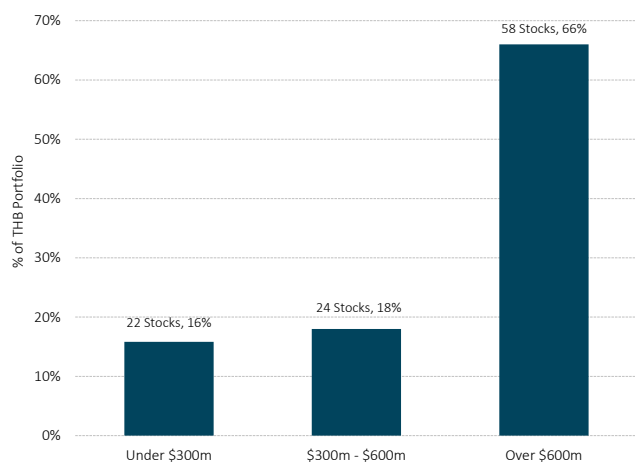
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Composite weight
Perficient	Technology	2.9%
PAR Technology Corp	Technology	2.8%
TPI Composites	Industrials	2.6%
BJ's Restaurants	Consumer Disc.	2.3%
Upland Software	Technology	2.3%
Ultra Clean Holdings	Technology	2.1%
Century Communities	Consumer Disc.	2.1%
Guess?	Consumer Disc.	1.8%
Cheesecake Factory	Consumer Disc.	1.8%
Koppers Holdings	Materials	1.6%

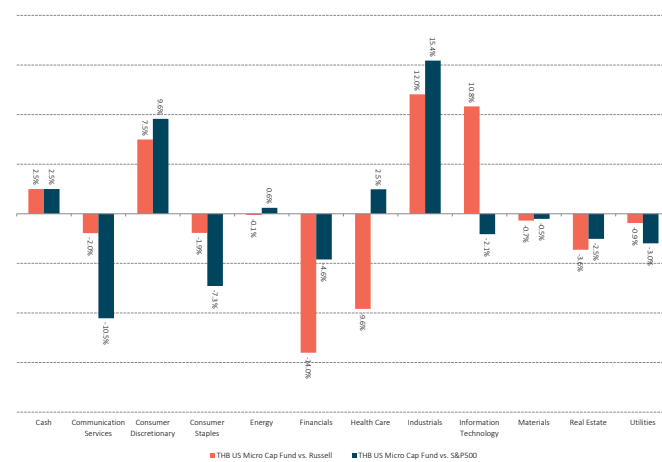
Source: THB Asset Management

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

THB
Asset Management

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