

THB Asset Management

THB International (ex-USA) Micro Cap Fund

INVESTING IN	BASED IN	FIRM INVESTING SINCE	FUND INCEPTION
International micro cap stocks (excluding USA)	Connecticut, USA	1982	2018

37

YEARS INVESTING AS A FIRM

20+ year

TRACK RECORD IN MICRO CAPS

150

STOCKS IN PORTFOLIO

“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.

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%).

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

Reputation

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

One of the longest established micro cap managers with 37 years' experience

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* Index¹

FUND SIZE
A\$81 million²

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

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

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.

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.

Signatory of:



1. 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 2,500 constituents, the Index covers approximately 14% of the free float-adjusted market capitalisation in each country. Source: MSCI.
2. As at 30 September 2020.

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Strategy

Well diversified and efficient exposure, 150 stocks

Active management based on market tested investment philosophy

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