

THB Asset Management

THB US Micro Cap Fund

INVESTING IN
US micro cap stocks

BASED IN
Connecticut, USA

FIRM INVESTING SINCE
1982

FUND INCEPTION
2014

37

YEARS INVESTING AS A FIRM

20+ year

TRACK RECORD IN MICRO CAPS

100+

STOCKS IN PORTFOLIO

“Lack of analyst attention in the smallest segment of the sharemarket provides abundant opportunities for outsized returns.”

Christopher Cuesta, CEO and Portfolio Manager, THB

The THB US Micro Cap Fund invests in a broadly diversified portfolio of US micro cap stocks.

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.

Why US micro caps?

The world's deepest and broadest source of micro cap stocks is in the US. Over a full market cycle a well-diversified portfolio of high quality micro cap companies run by top calibre management teams should significantly outperform larger cap portfolios. These companies tend to grow faster than their larger counterparts and have more rapid earnings growth. Micro cap investing also presents abundant alpha opportunities. Research coverage is limited, which creates an information void and resulting inefficiency. As well, more than 50% of all US merger and acquisition activity is typically in the size range of micro cap companies and balance sheets appear healthier than at any time in the past 20 years.

THB investment approach

THB thinks and acts like a business owner. It seeks to invest alongside 'owner entrepreneurs', pursuing experienced management teams who have extensive experience, a proven track record and a material level of outstanding shares.

THB identifies companies where the market has undervalued its potential based on its operating structure and profitability, failed to recognise inherent value on a cost replacement basis, and/or overlooked synergies available to potential acquirers.

THB's approach is also distinguished by its focus on companies with:

- Strong balance sheets, little debt, high tangible asset ratios, stable profitability and strong corporate governance.
- Well entrenched competitive positions and a unique 'advantage' not fairly valued by the market.
- Obvious near term catalysts for growth and change, including special situations such as spin-offs and recapitalisations.
- Strong secular tailwinds such as improving demand dynamics and structural industry change.
- Ownership catalysts such as positive insider activity, share buy-backs and activist intervention.

Opportunity

Inefficiencies in smallest segment of the sharemarket provide abundant alpha opportunities

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 US Micro Cap Fund

APIR CODE
ETLO413AU

INVESTMENT MANAGER
THB Asset Management

RESPONSIBLE ENTITY
Equity Trustees Limited

FUND INCEPTION DATE
5 September 2014

BENCHMARK
Russell Microcap® Index¹

FUND SIZE
A\$60 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
0.30% on applications and 0.30% on withdrawals

INVESTMENT UNIVERSE
All securities included in the Russell Microcap Index and other permitted securities

CURRENCY HEDGING
None. The Fund does not hedge its currency exposure. The underlying investments are typically denominated in US dollars

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

THB undertakes more than 95% of the research on companies internally. Idea generation comes from a combination of the managers' proactive search for opportunities, market activity and meetings. A quantitative screen is used to flag companies that display active characteristics.

Fundamental analysis is then conducted on each company to develop and test an investment thesis, understand business growth drivers, appraise management and assess value.

THB sets a price target based on a blend of historical, relative and private markets valuations. Price targets are adjusted using an internal 'quality rank' that forces consideration of factors including management, alignment, market dynamics and standard deviation/risk. This metric typically steers THB away from higher volatility, riskier companies.

Capital is then allocated within portfolio constraints and having regard to the market cap and volatility distributions.

Signatory of:



Strategy

Well diversified and efficient exposure, over 100 stocks

Active management based on market tested investment philosophy

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1. The Russell Microcap Index is a capitalisation weighted index of approximately 1,500 stocks that captures the smallest 1,000 companies in the Russell 2000 and up to 1,000 smaller US based listed stocks.
2. As at 30 September 2020.

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