

THB US Micro Cap Fund

Monthly Report – October 2020

Market commentary

The Russell Microcap® Index (Index) returned 3.4% in October in AUD.

Financials (+9.3%) was the best performing sector, followed by Materials (+1.4%), and Information Technology (+1.4%). Energy (-4.8%) was the worst performing sector, followed by Communication Services (-2.2%), and Utilities (-2.0%).

US equities were mixed this month with smaller capitalisation equities outperforming large cap. The S&P 500 returned -2.7% compared to +2.1% for the Russell 2000. Second wave virus fears remain as the number of cases has elevated, although containment and treatment of these cases are much improved versus the early days of COVID-19. Utilising broad measures of higher frequency data, it appears the US Economy is operating at ~80-85% of normalised levels. Certain areas of the economy are much stronger than others, with housing being especially strong, by way of example, US existing home sales rose to a 14 year high. Consumers continue to recover confidence as the University of Michigan sentiment increased to 81.8, a seven-month high.

Portfolio commentary

The THB US Micro Cap Fund returned 3.9% in AUD (net of fees) in October, outperforming the Index by 0.5%.

The portfolio saw positive contribution from stock selection in Industrials (+0.5%), Health Care (+0.4%), and Energy (+0.4%). Negative contribution came from underallocation to Financials (-1.0%), stock selection in Information Technology (-0.7%), and overallocation to Energy (-0.1%).

THB's top five performing stocks (from a contribution standpoint) were Sleep Number Corporation (Consumer Discretionary, +0.4%), TPI Composites, Inc. (Industrials, +0.3%), Providence Service Corporation (Health Care, +0.2%), First Busey Corporation (Financials, +0.2%), and Boot Barn Holdings, Inc. (Consumer Discretionary, +0.2%).

The bottom five performing stocks (from a contribution standpoint) were PAR Technology Corporation (Information Technology, -0.3%), Perficient Inc. (Information Technology, -0.2%), M/I Homes (Consumer Discretionary, -0.2%), Ping Identity Holdings Corp. (Information Technology, -0.2%) and ePlus Inc. (Information Technology, -0.2%).

Corporate decarbonisation efforts are gaining momentum across the globe and this has increased interest in Hydrogen as a fuel and related companies. Current holding, Hyster Yale, is a great example of the inefficiency of the microcap asset class as their hydrogen fuel cell engine division (Nuvera) goes largely unnoticed by the markets. Nuvera has developed hydrogen fuel cell engines ranging from 5-90 kW which can be applied in forklifts, buses, and other applications.

During the month, THB's portfolio companies announced seven acquisitions and two new share-repurchase authorisations.

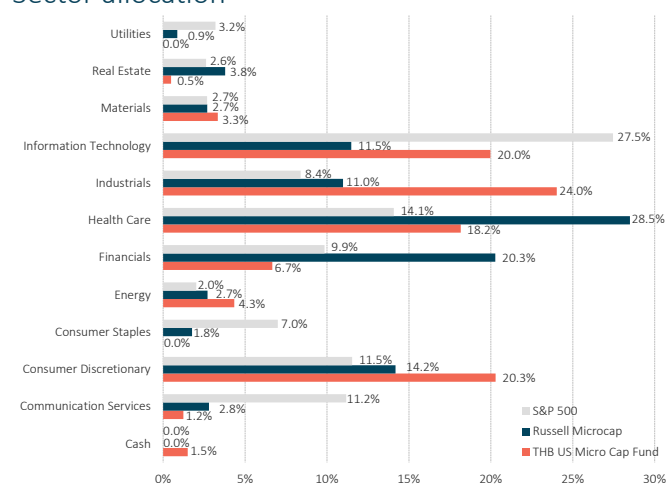
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$62.3 million

Performance ¹ – 31 October 2020			
	Fund ²	Russell Microcap®	Difference
1 month	3.9%	3.4%	0.5%
3 months	10.5%	6.1%	4.3%
1 year	1.2%	1.2%	0.0%
2 years p.a.	0.4%	0.3%	0.0%
3 years p.a.	3.1%	3.4%	(0.3%)
5 years p.a.	8.5%	6.2%	2.3%
Since inception p.a. ²	9.7%	9.9%	(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. 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 October 2020		
	Fund	Russell Microcap®
Weighted avg market cap	US\$895m	US\$579m
Price/sales	0.8x	0.6x
Price/book	1.8x	1.4x
Dividend yield	0.6%	1.4%
Number of securities	100	1,310
Standard deviation	20.1%	20.1%
Sharpe ratio	0.4	0.3
Beta	1.0	
Tracking error	5.9	
Information ratio	0.1	

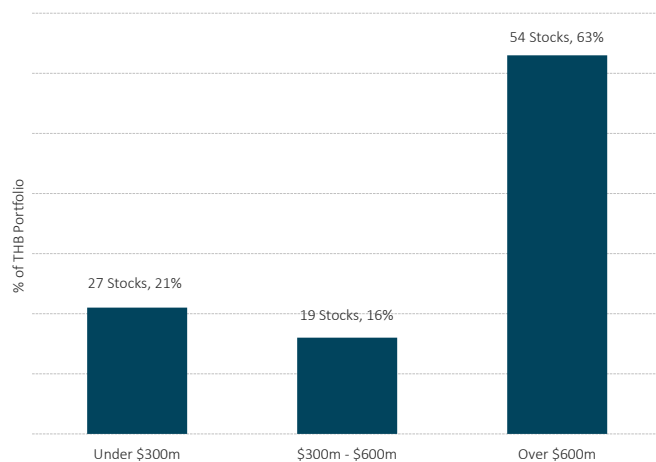
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Composite weight
PAR Technology Corp	Technology	2.6%
Renewable Energy Group	Energy	2.5%
Perficient	Technology	2.4%
TPI Composites	Industrials	2.3%
First Busey Corp	Financials	2.1%
BJ's Restaurants	Consumer Disc.	2.1%
Upland Software	Technology	2.1%
Guess? Inc.	Consumer Disc.	2.0%
BioLife Solutions	Health Care	2.0%
Sleep Number Corporation	Consumer Disc.	1.9%

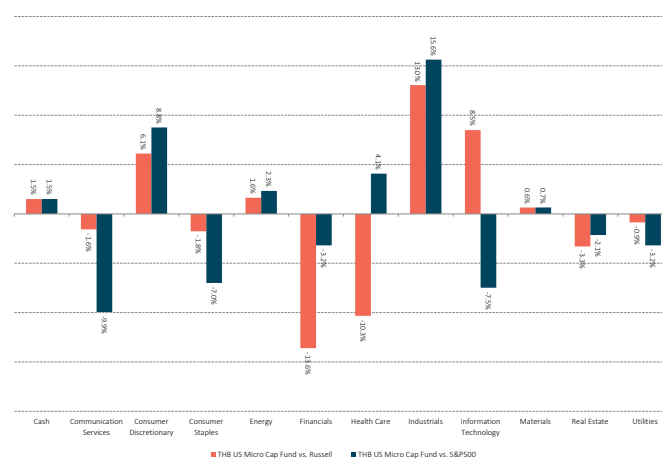
Source: THB Asset Management

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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