

THB International Micro Cap Fund – Class W

Quarterly Report – March 2020

Market commentary

The MSCI World ex USA Small Cap® Index (Index) returned -17.8% (AUD) in Q1 2020.

Consumer Staples (-13.8%) was the best performing sector, followed by Health Care (-15.6%) and Utilities (-16.2%). Energy (-56.0%) was the worst performing sector, followed by Consumer Discretionary (-35.2%) and Industrials (-31.2%).

Belgium (-17.9%) was the best performing country, followed by Switzerland (-19.0%) and Denmark (-19.5%). Norway (-42.2%), Canada (-37.6%) and France (-36.7%) were the worst performing countries in the Index.

The drawdown in global equities during March 2020 as a result of the COVID-19 pandemic was widespread with few stocks, sectors or asset classes offering refuge from the selling pressure. The selling was indiscriminate, and correlations increased as participants sought liquidity above all else. Broad global equity indices were down 25-35%. As well, oil prices plunged as lockdowns across the globe weakened the outlook for demand along with disagreement between OPEC and non-OPEC countries to reach an agreement for supply.

While COVID-19 is different from past macroeconomic shocks and market drawdowns, the market reaction, behavioural tendencies, and news flow have tended to follow similar patterns. Each calamity or crisis follows a similar path as the crisis in question seems insurmountable, a brighter future appears difficult to envision, the media popularises the most extreme voices and the markets quickly price in extreme scenarios as leveraged participants and weak hands are sold out of the market.

In reaction to the forced shutdown of large parts of global economies, there have been numerous fiscal and monetary programs announced across the developed markets to offset the lost economic output. Lessons learned from the GFC have seen the governments around the world, the Federal Reserve and other central banks globally act quickly and decisively. Enormous amounts of liquidity have been injected into various conduits within markets, with measures including the Fed cutting interest rates twice in March (for the first time since the GFC) and introducing unlimited quantitative easing, the Bank of England cutting rates to an all-time low and the Bank of Japan announcing after an emergency policy meeting that it would expand its purchases of stocks, bonds and other assets and provide zero interest, one year loans to companies running short of cash to help the economy weather the impact of the virus outbreak.

On the fiscal policy front, governments announced stimulus packages to reduce the impact of lockdowns, with the US government announcing an unprecedented US\$2 trillion stimulus package and the European Central Bank announcing the Pandemic Emergency Purchase Program (PEPP) of US\$850 billion.

Portfolio commentary

The THB International (ex-USA) Micro Cap Fund- Class W returned -18.6% in AUD (net of fees) in Q1, underperforming the index by 0.8%.

Contributors to the portfolio's performance were positive stock selection in United Kingdom, France and underallocation to Canada.

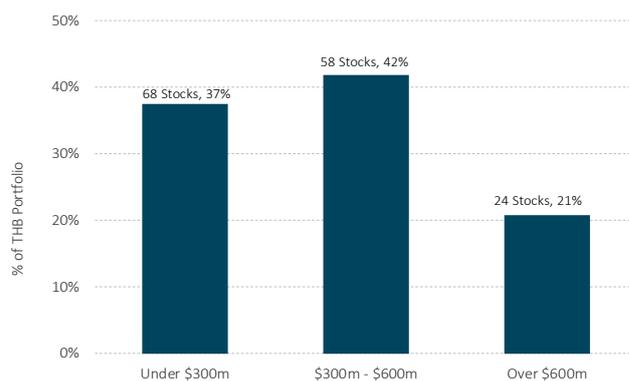
Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) ³
Inception date ²	23 August 2018
Fund size	A\$61 million

Net performance ¹ – 31 March 2020			
	Fund	MSCI World ex USA Small Cap®	MSCI World ex USA Micro Cap®
1 month	(13.6%)	(13.9%)	(13.1%)
3 months	(18.6%)	(17.8%)	(18.3%)
CYTD	(18.6%)	(17.8%)	(18.3%)
1 year	(4.0%)	(6.0%)	(8.5%)
Since inception ²	(8.9%)	(6.5%)	(9.6%)

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 tables may not sum correctly due to rounding.

2. 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

3. 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 2,557 constituents, the Index covers approximately 14% of the free float-adjusted market capitalisation in each country.

Source: MSCI

Stock selection in Japan, Australia and Switzerland were the primary detractors to performance.

From a sector perspective, positive contribution mainly came from overallocation to Health Care, Information Technology and underweight to Energy. Stock selection in Health Care, Information Technology, and Consumer Discretionary were the primary detractors in performance.

THB's top five performing stocks (from a contribution standpoint) were ISRA Vision AG., (Germany, Information Technology, +0.2%), Mamezou Holdings Co. Ltd. (Japan, Information Technology, +0.1%), Comture Corporation (Japan, Information Technology, +0.1%), Bravura Solutions Ltd. (Australia, Information Technology, +0.1%), and Rock Field Co. Ltd. (Japan, Consumer Staples, +0.1%).

The bottom five performing stocks (from a contribution standpoint) were 4imprint Group plc. (United Kingdom, Communication Services, -0.8%), El.En.S.p.A. (Italy, Health Care, -0.7%), Lovisa Holdings Ltd. (Australia, Consumer Discretionary, -0.7%), AB Dynamics plc (United Kingdom, Consumer Discretionary, -0.7%) and Judges Scientific Plc. (United Kingdom, Industrials, -0.5%).

During times like this, there is often a disconnect between the stock price and the intrinsic value of the corporations and their cash flow streams. The decoupling can last longer and be more violent than originally anticipated. Such periods are trying, but provide the seeds for longer-term outperformance. THB's experience managing through periods like this and its philosophical focus on high quality, well capitalised companies allows it to capture the abundant opportunities present in its universe.

The swift drawdown and indiscriminate selling have created outsized return opportunities within THB's universe. THB's opportunity set has greatly expanded, and THB is analysing each of its holdings to process new information, confirm assumptions and associated risks, with risk-adjusted returns being the primary decision driver. THB is finding great opportunities across all sectors.

Markets may be exhibiting the first phase of a bottoming process. Signals of selling exhaustion are apparent in the markets and that typically marks the first phase of a bottoming process. Similar to past drawdowns, the broader market indices may retest prior low levels, but a high percentage of individual stocks may likely have already put lows in, which begins the healing process of the markets.

The COVID-19 related drawdown and its effect on the economy and markets have created challenges, opportunities and will usher in changes. THB believes that the era of globalisation was already peaking before the COVID-19 pandemic and that it may serve to accelerate those trends. Nationalism was rising in many countries and tariffs and other disputes highlight the trend towards de-globalisation. Smaller capitalisation equities, whose revenues tend to be primarily domestic (US Micro Cap 90%, International Micro Cap 65%) should benefit as companies rework long, complex global supply chains. Smaller capitalisation domestic companies should be prime beneficiaries as countries and companies look to shift offshore production back within their borders.

Stocks in focus

The below two companies, Tristel and Kardex are examples of the widespread mispricing of securities within THB's international universe. An overview of each follows.

Top 10 holdings⁴

Stock	Sector/Country	Portfolio weight
Judges Scientific	Industrials/UK	1.7%
Gurit Holding	Materials/Switzerland	1.6%
SeSa S.p.A.	Technology/Italy	1.5%
Eolus Vind AB	Industrials/Sweden	1.5%
Tristel	Health Care/UK	1.4%
Avon Rubber	Industrials/UK	1.4%
NEXUS AG	Health Care/Germany	1.3%
Vetropack Holding AG	Materials/Switzerland	1.2%
Biotage AB	Health Care/Sweden	1.2%
S-Pool	Industrials/Japan	1.2%

Source: THB Asset Management

Tristel Plc (TSTL-GB)

Founded in 1993, Tristel started as a single product company with the development of its proprietary chlorine dioxide formulation used for the disinfection of heat sensitive medical instruments. The company captured significant market share replacing a competing product (glutaraldehyde) which was known to be toxic. Today, Tristel markets a broad portfolio of cleaning and disinfection products for hospital surfaces, medical instruments, the pharmaceutical industry and animal healthcare. The company has delivered strong double-digit top line growth over the past 3 years driven by expansion into new products and geographies while maintaining EBITDA margins above 23%. The company announced in March it is working on a new formulation that will combine Tristel's chlorine dioxide chemistry with ACTIZONE (a Solvay S.A. technology developed in collaboration with Byotrol). This new formulation will enable a disinfectant to have long-lasting efficacy on a surface for an 8-hour period after first application. The company is well-positioned to benefit long term from the increasing requirements for medical-disinfection products following the COVID-19 pandemic.

Kardex AG (KARN-CH)

The Kardex Group is a global industry partner for intralogistics solutions and a leading supplier of automated storage solutions and material handling systems. Kardex provides intelligent and connected modules customised for the individual warehouse needs of companies of every size in a wide range of industries. The modules can be expanded in any number of ways and allow companies to gradually automate their warehouse processes, starting with the stand-alone system right through to the fully integrated logistics solution. The growth of industrial automation, e-commerce and the resulting delivery/return logistics complexities are driving demand for its products. FY 2019 was a record year for the company both in terms of revenues and profitability, on top of a very strong FY 2018. The company has a pristine balance sheet with \$150M in cash and no debt. Margins are trending higher as a result of strong cost controls despite investments in growth.

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.

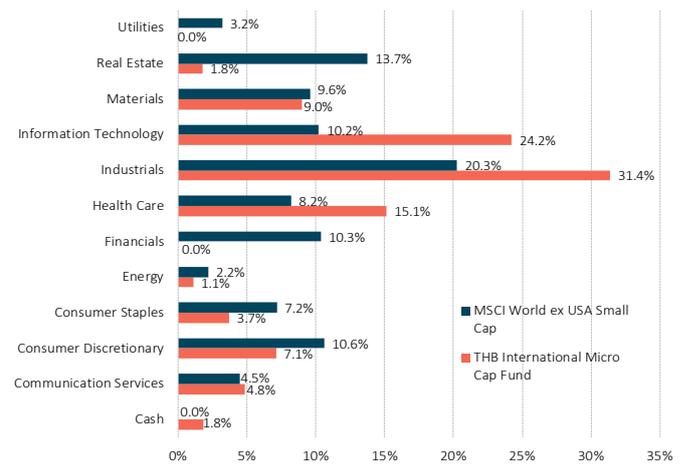
5. Portfolio statistics are reported in USD.

Portfolio statistics⁵

As at 31 March 2020		
	Fund	Benchmark
Weighted avg market cap	US\$427m	US\$2,146m
Price/sales	1.1x	0.7x
Price/book	2.2x	1.1x
Dividend yield	2.5%	3.4%
Number of securities	150	2,533
Standard deviation	17.5%	15.5%
Sharpe ratio	0.5	0.02
Beta	1.1	
Tracking error	5.4	
Information ratio	1.4	

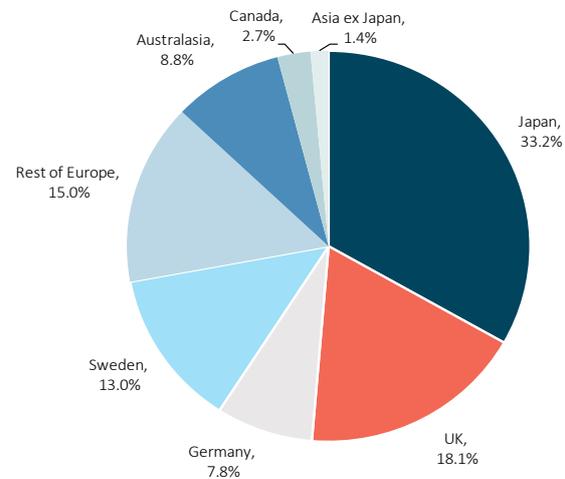
Source: THB Asset Management

Sector allocation⁶



Source: THB Asset Management

Country allocation⁶



Source: THB Asset Management

6. 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® Index.

BROOKVINE

THB
Asset Management

For more information contact:
Natalie Hall on +61 2 9328 6445 or
nataliehall@brookvine.com.au

This document has been prepared and issued by Thomson Horstmann & Bryant, Inc. (THB) and is intended for the general information of 'wholesale clients' (as defined in the Corporations Act 2001) only. THB is exempt from holding an Australian Financial Services Licence pursuant to ASIC Class Order 03/1100 'Relief for US SEC regulated financial service providers' in respect of the financial services it provides to Wholesale Clients, and is not licensed to provide financial services to retail clients, in Australia. THB is regulated by the Securities and Exchange Commission of the United States of America under US laws, which differ from Australian laws. Equity Trustees Limited (Equity Trustees) (ABN 46 004 031 298, AFSL 240975) is a subsidiary of EQT Holdings Limited (ABN 22607 797 615), a publicly listed company on the Australian Securities Exchange (ASX:EQT). Equity Trustees is the Responsible Entity of the THB International Micro Cap Fund (ARSN 623 620 744). This document is neither an offer to sell or a solicitation of any offer to acquire interests in any investment. The information contained in this document is of a general nature only. Accordingly, reliance should not be placed on this information as the basis for making an investment, financial or other decision. In preparing this document, THB has not taken into account the investment objectives, financial situation and needs of any particular person. Before making any investment decision, you should consider whether the investment is appropriate in light of those matters. Whilst every effort is taken to ensure the information in this document is accurate, THB and Equity Trustees provides no warranty as to the accuracy, reliability and completeness of the information in this document and you rely on this information at your own risk. To the extent permitted by law, THB and Equity Trustees disclaims all liability to any person relying on the information contained in this document in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information. Past performance is not a reliable indicator of future performance. The return of capital or any particular rate of return from the Fund is not guaranteed. You should obtain and consider the Fund's Product Disclosure Statement (PDS) before deciding whether to acquire, or continue to hold, an interest in the Fund. Applications can only be accepted on an application form attached to a current Product Disclosure Statement. Neither THB, Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it.