

# THB International (ex-USA) Micro Cap Fund – Class W

## Quarterly Report – June 2020

### Market commentary

The MSCI World ex USA Small Cap® Index (Index) returned 8.2% (AUD) in Q2 2020.

Materials (+36.7%) was the best performing sector, followed by Information Technology (+32.2%) and Consumer Discretionary (+26.5%). Real Estate (+9.4%) was the worst performing sector, followed by Consumer Staples (+13.5%) and Utilities (+16.9%).

Australia (+47.4%) was the best performing country, followed by Canada (+44.3%) and Norway (+33.6%). Spain (+12.7%), Japan (+12.8%) and Hong Kong (+14.6%) were the worst performing countries in the Index.

In aggregate, international developed market equities rallied as extreme views regarding the pandemic gave way to a more balanced approach and the full impact of the fiscal and monetary response to the crisis became clear. Equities were led by strong performance from small cap stocks as the MSCI World ex US Small Cap Index returned 21.7% while the MSCI World ex US was up 15.6%. Developed market countries continued to enact sizable monetary and fiscal stimulus efforts to offset COVID-19 related economic weakness.

From the outset, THB believed that the worst of the impact of COVID-19 would be transitory. In that respect it has elements of a natural disaster with a brief sharp draw down in economic activity. So far that has proven to be the case, but one should not think that complete recovery is just around the corner.

On the positive side, there is an incredible amount of capital, bright minds and all the best medical technologies working towards a vaccine and/or therapeutic. Further, mitigation efforts are in place, treatment procedures have been improved and the normal time element associated with all viral outbreaks is taking place. Thus, THB continues to believe that there exists a high probability that some end to COVID-19 is in the near future.

However, quite clearly there has been a significant cost and a significant economic dislocation. Further economic recovery will take time. The economy and markets will have to respond to these dislocations and unexpected consequences. The duration function of COVID-19 is therefore sensitive to the ebb and flow of news. Positive news (vaccine, therapeutic, lower cases/mortality) shortens duration while negative news (higher infection rates, higher mortality rates, pushback of vaccine or therapeutic) elongates duration.

Thus, while THB believes the sharp move higher since the March lows confirms that we are closer to the end of COVID-19, it plans to use news flow-related pullbacks to add to its highest conviction positions. THB also recognises there may be no plain sailing and it will have to take care to adjust the portfolio to take advantage of new realities.

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) <sup>3</sup>
Inception date <sup>2</sup>	23 August 2018
Fund size	A\$72 million

Net performance <sup>1</sup> – 30 June 2020			
	Fund	MSCI World ex USA Small Cap®	MSCI World ex USA Micro Cap®
1 month	(2.2%)	(1.9%)	(0.2%)
3 months	14.2%	8.2%	11.7%
CYTD	(7.1%)	(11.0%)	(8.8%)
1 year	2.7%	(1.3%)	(0.7%)
Since inception <sup>2</sup>	(0.7%)	(1.5%)	(2.5%)

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 2,511 constituents, the Index covers approximately 14% of the free float-adjusted market capitalisation in each country. Source: MSCI

## Portfolio commentary

The THB International (ex-USA) Micro Cap Fund - Class W returned 14.2% in AUD (net of fees) in Q2, outperforming the index by 6.0%.

Contributors to the portfolio's performance were positive stock selection in Japan, Germany and United Kingdom. An underallocation to Canada, stock selection in Canada and an overallocation to Japan were the primary detractors from performance.

From a sector perspective, the main positive contribution was from stock underallocation to Real Estate, stock selection in Health Care and an overallocation to Information Technology. An underallocation to Materials and Consumer Discretionary, and stock selection in Energy, were the primary detractors from performance.

THB's top five performing stocks (from a contribution standpoint) were Ramelius Resource Ltd., (Australia, Materials, +1.0%), Pushpay Holdings Ltd. (New Zealand, Information Technology, +0.9%), Retail partners Co. Ltd. (Japan, Consumer Staples, +0.7%), secunet Security Network AG. (Germany, Information Technology, +0.7%) and Dr. Hoenle AG (Germany, Industrials, +0.7%).

The bottom five performing stocks (from a contribution standpoint) were Vetropack Holdings AG (Switzerland, Materials, -0.2%), Nozawa Corp (Japan, Materials, -0.1%), Naigai Trans Line Ltd. (Japan, Industrials, -0.1%), Anest Iwata Corp (Japan, Industrials, -0.1%) and Fountain Pajot (France, Consumer Discretionary, -0.1%).

The economic and market effects of the virus are happening in real time, providing both opportunities and risks. Adaption, persistence, and ingenuity are on display as companies and industries look to move forward and succeed in a post COVID-19 world. Some existing secular changes have been accelerated while adaptive technologies are seeing robust levels of growth. Misplaced fears about industries and companies have created tremendous valuation opportunities. THB is finding companies who are benefiting from some COVID-19 related changes and ones that are quickly adapting and will prosper through COVID-19 and beyond.

Smaller companies tend to generate more revenue from domestic sources. As such, these companies should benefit as efforts increase to restore production of a host of products which are currently made in foreign countries. Beyond the direct benefit from moving the products onshore, small domestic companies could receive a halo effect as production facilities create additional ancillary economic activity (restaurants, real estate, technology, transportation, etc.). They should also be less affected than large cap multinationals as trade flows begin to realign.

The sharp recovery in equity markets reflects the optimism that the worst may be behind us. That optimism has been confirmed in better than expected employment data, rising global PMI readings and increasing confidence levels. Optimism is a necessary ingredient for global economies to continue to improve as both consumers and businesses make decisions on whether to spend or save. Well capitalised corporations are beginning to invest excess cash flows through acquisitions of weakened competitors or expanding their market share. For example, during the quarter, 10 portfolio companies initiated new share repurchase authorisations and announced 22 acquisitions. THB believes well managed and strongly capitalised companies will continue to adapt and thrive in an ever-changing macro environment.

## Stocks in focus<sup>3</sup>

Two new portfolio positions are detailed below.

### Soiken

Soiken is a developer of biomarkers used in clinical tests for food safety as well as clinical research for pharmaceutical drugs<sup>4</sup>. It started as a venture from the Faculty of Medicine at Osaka University as part of an anti-fatigue project launched as a collaboration with the government to eliminate the occurrence of fatigue in Japan. Since 2017 Soiken has been focused on becoming a developer of proprietary pharmaceutical materials expanding its portfolio of products into dietary supplements and cosmetics to meet higher demand driven by the aging Japanese population and increasing government regulation of healthcare and consumer products. The trend towards functional food and drink products in Japan was bolstered by a new regulatory category, Foods with Functional Claims (FFC) introduced in 2015. FFC classification allows specific health claims to be made about products and is driving strong demand for Soiken's biomarkers and proprietary products. Soiken has delivered 24% revenue CAGR over the past 5 years, both organically and through acquisitions, while maintaining a debt-free balance sheet.

### Bouvet

Bouvet is a leading consultancy in IT, digital communications and enterprise management solutions in Scandinavia. The company is a trusted service provider to both the government and the private sector. Digitalisation, sustainability and data analytics projects are driving demand for Bouvet's services. Bouvet's data integration specialisation was developed into a platform that was recently launched as a separate product offering, Sesam. This product makes data from various systems accessible as well as transforming and integrating them. The solution is rapidly winning new prominent clients including Sweden's Medical Products Agency. The company's growth is fueled by strong secular trends in the data industry and a shift to remote work and services in a post-COVID-19 world. For example, it is involved in the upgrade of the information portal of the Norwegian government which provides digital services of 57 different agencies including the Tax Administration. Bouvet is well-positioned for growth and has delivered strong operating leverage over the past 5 years: EBIT increased at 16% annual rate on 6% revenue CAGR.

3. 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.

4. A biomarker is a chemical in the body which has a particular molecular feature that makes it useful for measuring the progress of disease or the effects of a treatment.

## Portfolio statistics<sup>5</sup>

As at 30 June 2020		
	Fund	Benchmark
Weighted avg market cap	US\$641m	US\$2,321m
Price/sales	1.7x	0.8x
Price/book	3.2x	1.2x
Dividend yield	1.7%	2.9%
Number of securities	150	2,511
Standard deviation	18.4%	16.2%
Sharpe ratio	0.7	0.3
Beta	1.1	
Tracking error	5.4	
Information ratio	1.5	

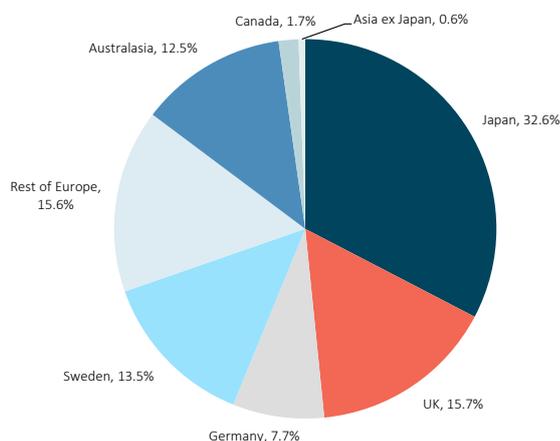
Source: THB Asset Management

## Top 10 holdings<sup>6</sup>

Stock	Sector/Country	Portfolio weight
Ramelius Resources	Materials/Australia	1.5%
SHIFT, Inc	Technology/Japan	1.3%
secunet Security Networks	Technology/Germany	1.3%
SeSa S.p.A.	Technology/Italy	1.3%
Gurit Holding	Materials/Switzerland	1.2%
Basler	Technology/Germany	1.2%
Judges Scientific	Industrials/UK	1.2%
Avon Rubber	Industrials/UK	1.2%
Eolus Vind	Industrials/Sweden	1.2%
Sectra	Healthcare/Sweden	1.2%

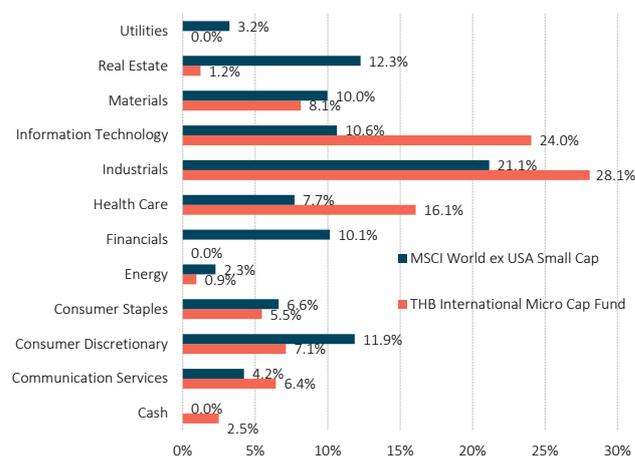
Source: THB Asset Management

## Country allocation<sup>6</sup>



Source: THB Asset Management

## Sector allocation<sup>6</sup>



Source: THB Asset Management

5. Portfolio statistics are reported in USD.

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## 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<sup>®</sup> Index.

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Asset Management

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