

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

## Quarterly Report – September 2020

### Market commentary

The MSCI World ex USA Small Cap® Index (Index) returned 5.8% (AUD) in Q3 2020.

Communication Services (+20.5%) was the best performing sector, followed by Consumer Discretionary (+14.7%), and Information Technology (+11.3%). Energy (+0.8%) was the worst performing sector, followed by Financials (+5.8%), and Materials (+9.5%).

Sweden (+23.6%) was the best performing country, followed by Finland (+23.1%), and Denmark (+15.4%). Spain (+5.0%), Singapore (+5.3%) and the United Kingdom (+6.6%) were the worst performing countries in the Index.

Developed market equities were broadly higher this quarter with notable strength in the European countries. The V shaped recovery is taking place across most regions and most countries will reach pre-COVID-19 economic output levels much earlier than originally anticipated. Retail sales and household spending are already above pre-COVID-19 levels in most DM economies. Localised flare ups of COVID-19 in Europe have caused some travel restrictions, but overall economic growth remains solid with European retail sales recently surprising to the upside. Strong growth in Germany and UK manufacturing highlight the continued economic momentum.

### Portfolio commentary

The THB International (ex-USA) Micro Cap Fund - Class W returned 11.5% in AUD (net of fees) in Q3, outperforming the index by 5.7%.

Contributors to the portfolio's performance were positive stock selection in Germany, the United Kingdom, and overallocation to Sweden. Underallocation to Denmark, Norway and overallocation to Japan were the primary detractors to performance.

From a sector perspective, positive contribution mainly came from stock selection in Health Care, Information Technology, and Financials. Underallocation to Consumer Discretionary, stock selection in Communication Services and Industrials were the primary detractors in performance.

THB's top five performing stocks (from a contribution standpoint) were Verbio Vereinigte BioEnergie AG (Germany, Energy, +1.0%), SeSa S.p.A. (Italy, Information Technology, +0.8%), Soiken Holdings Inc. (Japan, Consumer Staples, +0.7%), Swedencare AB (Sweden, Health Care, +0.7%), and Gurit Holding AG (Switzerland, Materials, +0.6%).

The bottom five performing stocks (from a contribution standpoint) were Metawater Co Ltd. (Japan, Industrials, -0.3%), u-blox Holding AG (Switzerland, Information Technology, -0.1%), CTT Systems AB (Sweden, Industrials, -0.1%), 4imprint Group plc (United Kingdom, Communication Services, -0.1%) and Basler AG (Germany, Information Technology, -0.1%).

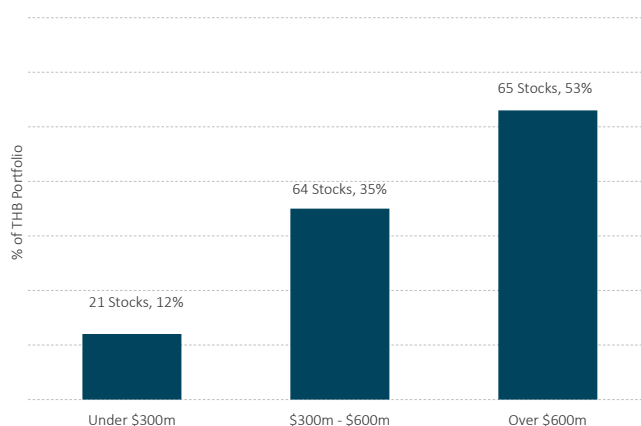
COVID-19 has elements of prior business recessions/recoveries, combined with unique elements all creating changes which are happening much faster than any prior cycles. The velocity of change

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\$81 million

Net performance <sup>1</sup> – 30 September 2020			
	Fund	MSCI World ex USA Small Cap®	MSCI World ex USA Micro Cap®
1 month	4.6%	2.0%	3.5%
3 months	11.5%	5.8%	8.9%
CYTD	3.6%	(5.9%)	(0.7%)
1 year	13.3%	0.6%	6.2%
Since inception <sup>2</sup>	4.8%	1.4%	1.9%

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

is creating enormous opportunities within the share markets. Prior cycle playbooks have largely been rendered useless by the unique nature of COVID-19 and how it is reshaping the global economy.

COVID-19, politics and protests have grabbed the headlines, but if you dig a little deeper you will see what is happening beneath the surface. Companies are adapting, new businesses are forming and technology is being developed and applied in ways we could not think of just a few years ago. THB have mentioned this before, and it remains even more applicable today. Macro events of differing forms will continue to blow through the global economy, different political parties will run governments and various natural disasters will cause concern, but the backdrop of ingenuity and creativity of the women and men managing small businesses will remain constant. This steady backdrop provides amazing investment opportunities which THB will continue to discover and add to the portfolio.

During the quarter, 18 acquisitions were made by THB’s portfolio holdings. Seven companies initiated new share repurchase programs. THB’s portfolio companies continue to increase shareholder value by deploying capital to repurchase their own shares and expanding through acquisitions. Holding HIQ International was acquired by private equity firm Triton Advisers for a 34% premium on the day and 132% higher than the March 2020 low. THB believes that its high quality, well capitalised companies will continue to garner interest from strategic and financial buyers.

### Stocks in focus<sup>4</sup>

#### Avon Rubber (AVON-GB)

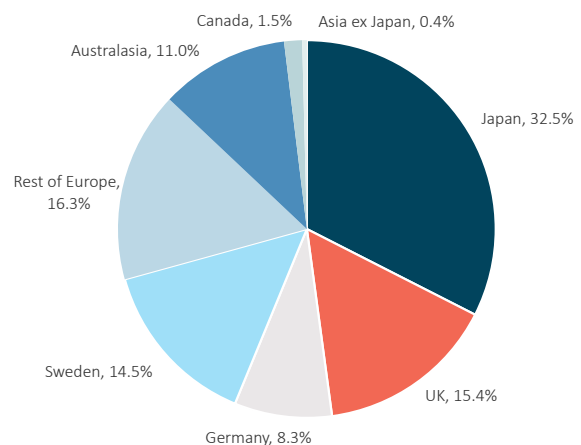
Avon Rubber Plc manufactures and designs respiratory protection products for defence and industrial users. The company was founded in 1885 and listed on the stock market in 1933. The firm also offers a range of polymer based products for the dairy and defence industries. It operates through the following segments: Avon Protection and Milkrite. The Avon Protection segment consists of respiratory products, which include gas masks; FM12, M50, C50, ST53 and M53 together with a range of spares and accessories; the CE approved emergency hood and NIOSH approved emergency hood NH15. The company has a long history in this market. The company produced roughly 20M masks during World War II. The Milkrite segment designs, manufactures and sells products used in the automated milking process, primarily rubber ware such as liners and tubing. Avon management was turned over in 2017 with a new CEO, Paul McDonald and a new CFO, Nick Keveth. New management outlined the following three pillars of their strategy (1) grow the core (2) selective product development and (3) value-enhancing acquisitions. THB views the management team as top tier, with organic revenues growing 9.5% as of H1 2020 with 330 bps of EBITDA margin improvement. As part of its M&A strategy outlined in 2017, the company has been involved in four transactions to optimise its portfolio and set it up for future growth.

#### Swedencare AB (SECARE-SE)

Swedencare manufactures pet dental products that are sold in veterinarian clinics, pharmacies, and health food shops. The company has global distribution in over 50 countries, and has been growing due to acquisitions of key pet health distributors and manufacturers, as well as growth in global pet spending. The company’s gender diversity is almost equal with 48% of employees being female and 52% male. PlaqueOFF is the company’s flagship

product which represented 84% of 2019 sales. PlaqueOFF reduces the amount of plaque, tartar and problems with bad breath in cats and dogs. Roughly 80% of dogs have oral health issues before 3 years of age. Animal health care is a sector that is seeing significant structural growth driven by strong megatrends. 94% of pet owners see their pets as a family member and there is an increased life expectancy of their pets. Additionally, there is an increased demand for organic, premium, sustainable and “clean label” products. As such, Swedencare has thrived for several years making year on year gains in sales and income annually since becoming public in 2016. Chewy.com in the U.S. is its largest customer and they have a growing relationship with Amazon in Europe. Company has a strong balance sheet with net cash position of \$15M.

### Country allocation<sup>4</sup>



Source: THB Asset Management

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 statistics<sup>5</sup>

As at 30 September 2020		
	Fund	Benchmark
Weighted avg market cap	US\$791m	US\$2,615m
Price/sales	1.9x	0.8x
Price/book	3.5x	1.3x
Dividend yield	1.4%	2.6%
Number of securities	150	2,511
Standard deviation	18.4%	16.2%
Sharpe ratio	0.8	0.4
Beta	1.1	
Tracking error	5.5	
Information ratio	1.6	

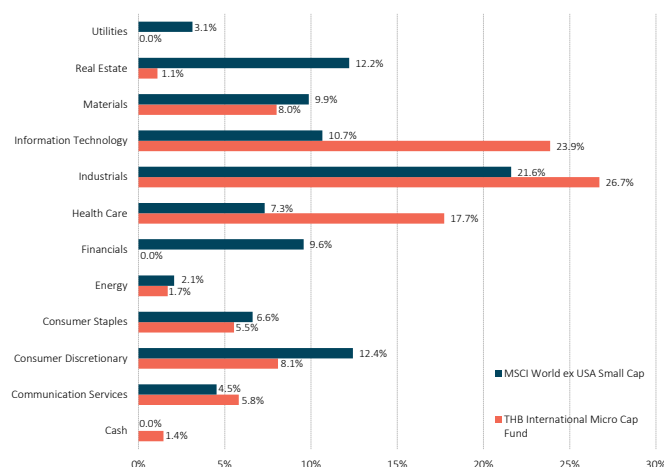
Source: THB Asset Management

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

Stock	Sector/Country	Portfolio weight
SeSa S.p.A.	Technology/Italy	1.8%
VERBIO Vereinigte BioEnergie	Energy/Germany	1.7%
Gurit Holding AG	Materials/Switzerland	1.6%
secunet Security Networks	Technology/Germany	1.5%
Soiken Holdings	Consumer Staples/Jpn	1.5%
SHIFT	Technology/Japan	1.4%
Avon Rubber	Industrials/UK	1.4%
Ramelius Resources	Materials/Australia	1.4%
Eolus Vind AB	Industrials/Sweden	1.3%
Swedencare AB	Health Care/Sweden	1.3%

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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