

THB US Micro Cap Fund

Quarterly Report – September 2020

Market commentary

The Russell Microcap® Index (Index) declined 0.4% (AUD) in Q3 2020.

Consumer Discretionary (+26.7%) was the best performing sector in Q3 followed by Industrials (+10.8%), and Information Technology (+8.7%). Utilities (-7.5%) was the worst performing sector, followed by Consumer Staples (-5.7%), and Energy (-5.2%).

Economic data has continued to improve this quarter and by most measures we are experiencing a V shaped recovery. Of course, there will be companies and industries which do not participate in the recovery. While unfortunate, there have always been companies and sectors which fall behind during historical economic expansions. Structural advantages, secular changes and rapid decision making allows a certain cohort of companies to outperform their peers. This is a natural part of the Darwinian nature of capitalism and over longer periods of time, is beneficial to the economy as a whole. The COVID-19 experience has also created a subset of companies which will perform relatively better than others and THB remains focused on finding those companies and adding them to the portfolio.

Portfolio commentary

The THB US Micro Cap Fund returned 7.8% in AUD (net of fees) in Q3, outperforming the Index by 8.2%.

The portfolio saw positive contribution from stock selection in Health Care (+2.8%), Energy (+1.7%), and underallocation to Financials (+1.8%). Negative contribution came mainly from selection in Consumer Discretionary (-1.8%), Industrials (-0.3%), and Communication Services (-0.1%).

THB's top five performing stocks (from a contribution standpoint) were Digital Turbine, Inc. (Information Technology, +1.8%), Renewable Energy Group, Inc. (Energy, +1.6%), Fulgent Genetics, Inc. (Health Care, +1.3%), PAR Technology Corporation (Information Technology, +1.0%), and BioLife Solutions, Inc. (Health Care, +0.9%).

The bottom five performing stocks (from a contribution standpoint) were Universal Technical Institute, Inc. (Consumer Discretionary, -0.4%), Heritage-Crystal Clean, Inc. (Industrials, -0.2%), First Busey Corporation (Financials, -0.2%), Frank's International NV (Energy, -0.2%) and BayCom Corp. (Financials, -0.2%).

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 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 our economy.

THB have mentioned this before, and it remains even more applicable today. Macro events of differing forms will continue to blow through our economy, different political parties will run government and various natural disasters will cause concern, but the backdrop of ingenuity and creativity of the women and men running

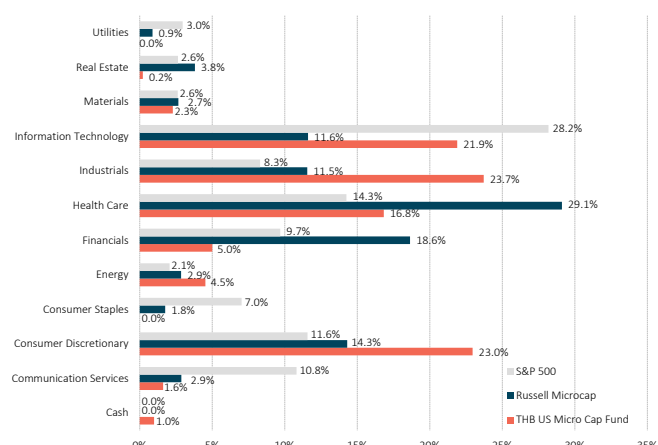
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$60.4 million

Performance ¹ – 30 September 2020			
	Fund ²	Russell Microcap®	Difference
1 month	1.8%	(0.1%)	1.9%
3 months	7.8%	(0.4%)	8.2%
1 year	(3.5%)	(1.7%)	(1.8%)
2 years p.a.	(5.5%)	(5.9%)	0.3%
3 years p.a.	3.5%	3.0%	0.6%
5 years p.a.	8.5%	6.3%	2.2%
Since inception p.a. ²	9.1%	9.4%	(0.3%)

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.

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.

American businesses will remain constant. This steady backdrop provides amazing investment opportunities which THB will continue to discover and add to the portfolio.

THB's companies announced eight new acquisitions this quarter.

Stocks in focus⁵

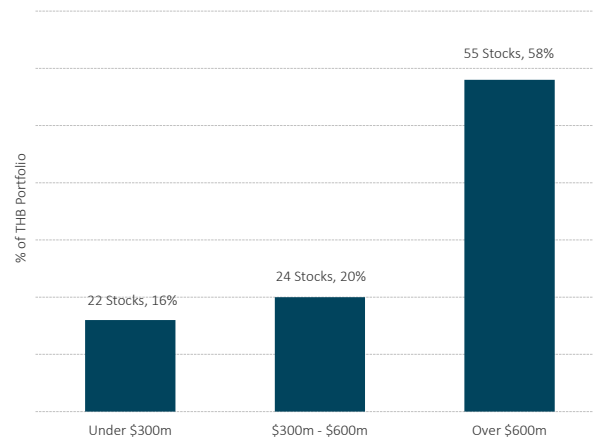
Aspen Group (ASPU)

Aspen Group is an educational technology company with two main universities: Aspen University (71% of FY 2020 revenue) and United States University (29% of FY 2020 revenue). The majority (85%) of its revenue comes from degree-seeking nursing students. The U.S. is going to need to hire 2.3 million new healthcare workers by 2025. The demand for registered nurses is expected to grow about 15% to ~3.4 million over the next decade. This situation is partly a result of the high percentage of registered nurses who are approaching retirement age, as 30% of registered nurses today are over 50 years old. The organisation has been resilient during COVID-19 because the students do the general requirements online and when they do attend a physical campus for clinical work, they are typically commuters. ASPU has given guidance that its pre-licensure bachelor's in nursing program will be a \$100M additional revenue opportunity over the next five years. In order to accomplish this, the company expects to have 12 campuses operational by 2024 vs its current two. In order to reduce the capital expenditure demand for building these new campuses, the company establishes clinical affiliations to local hospitals to split costs. ASPU has clinical affiliation agreements with organisations like John Hopkins All Children's Hospital, Inc., and The American National Red Cross.

Orion (OESX)

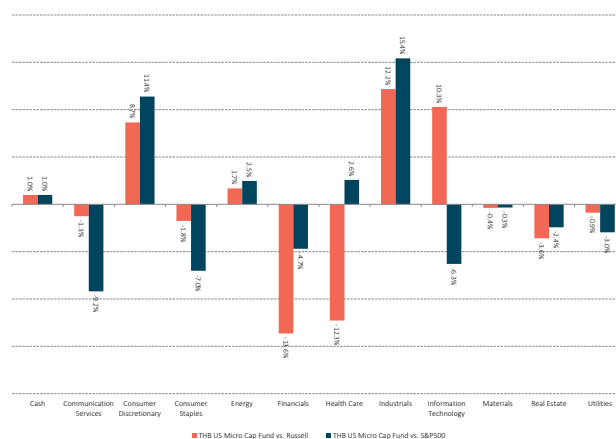
Orion enables businesses to digitise and reduce their carbon footprint by providing innovative LED lighting systems and turnkey project implementation, including installation and commissioning of fixtures, controls and IoT systems, ongoing system maintenance and program management. OESX LED lighting systems generally reduce lighting-related electricity costs by approximately 50% or greater, compared to legacy fixtures, while improving overall lighting quality. Additionally, installation costs are between 75% - 90% cheaper than leading competitors due to proprietary 0 component installations. The company has a blue-chip customer base including nearly 40% of the Fortune 500. Some of these customers include Walmart, GE, and Coca Cola. Retrofit installations for a major national account have resulted in total project revenue of approximately \$125M. Traction continues as the company received product wins from a new logistics customer and a global online retailer. Both are anticipated to be significant sources of revenue over time. The company is expanding its product line into white-light technology to combat bacteria, fungus, mold, and mildew, incorporating ultraviolet light into some of its products. Certain UV light has been shown to kill bacteria and to inactivate viruses. In horticultural lighting, the company expects a market potential for vertical farming and other horticultural lighting opportunities to grow significantly. Orion's fiscal 2020 revenue grew 129% to just over \$150 million and gross profit percentage grew from 22.1% to 24.6% last year.

Companies by market capitalisation



Source: THB Asset Management

Active sector positioning



Source: THB Asset Management

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Portfolio statistics⁵

As at 30 September 2020		
	Fund	Russell Microcap®
Weighted avg market cap	US\$922m	US\$624m
Price/sales	0.8x	0.6x
Price/book	1.9x	1.4x
Dividend yield	0.6%	1.4%
Number of securities	101	1,316
Standard deviation	20.3%	20.2%
Sharpe ratio	0.3	0.3
Beta	1.0	
Tracking error	5.9	
Information ratio	0.1	

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

Top 10 holdings⁵

Stock	Sector	Weight
PAR Technology	Technology	2.9%
Perficient	Technology	2.8%
Renewable Energy Group	Energy	2.4%
BJ'S Restaurants	Consumer Disc.	2.4%
Century Communities	Consumer Disc.	2.4%
TPI Composites	Industrials	2.3%
Guess?	Consumer Disc.	2.0%
BioLife Solutions	Health Care	2.0%
Upland Software	Technology	1.9%
M/I Homes	Consumer Disc.	1.8%

Source: THB Asset Management

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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 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.

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