

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

Quarterly Report – December 2020

Market commentary

The MSCI World ex USA Small Cap® Index (Index) returned 9.2% (AUD) in Q4 2020.

Energy (+33.9%) was the best performing sector, followed by Industrials (+21.5%) and Materials (+21.5%). Consumer Staples (+5.4%) was the worst performing sector, followed by Health Care (+7.3%) and Real Estate (+14.0%).

Norway (+33.6%) was the best performing country, followed by Israel (+29.4%) and Netherland (+27.8%). Japan (+8.1%), Belgium (+9.5%) and Singapore (+10.1%) were the worst performing countries in the Index.

The combination of continued strong economic data and positive Covid-19 vaccine trials propelled Global Equities broadly higher in the fourth quarter. Global manufacturing PMI readings reached a three year high in December. Underlying breadth and orders were strong, highlighting that government stimulus measures have been effective and will likely trigger a synchronised global economic recovery in 2021. Brexit has finally happened, providing some elements of clarity for markets and companies although there are many issues still needed to be resolved. In Japan, the Suga government outlined their growth policies centred on digitalisation and decarbonisation. Japan has pledged to decarbonise by 2050 and set policies to reach that target.

Portfolio commentary

The THB International (ex-USA) Micro Cap Fund - Class W returned 6.6% in AUD (net of fees) in Q4 2020.

Contributors to the portfolio's performance were positive stock selection in Sweden, Switzerland, and Italy. Stock selection in Japan, Australia and New Zealand were the primary detractors to performance.

From a sector perspective, positive contribution mainly came from stock selection in Health Care, Energy, and underallocation to Real Estate. Stock selection in Industrials, Information Technology, and overallocation to Health Care were the primary detractors in performance.

THB's top five performing stocks (from a contribution standpoint) were Verbio Vereinigte BioEnergie AG (Germany, Energy, +1.1%), Swedencare AB (Sweden, Health Care, +1.0%), Eolus Vind AB (Sweden, Energy, +0.8%), INVISIO AB (Sweden, Industrials, +0.6%), and Codemasters Group Holdings Plc (United Kingdom, Communication Services, +0.5%).

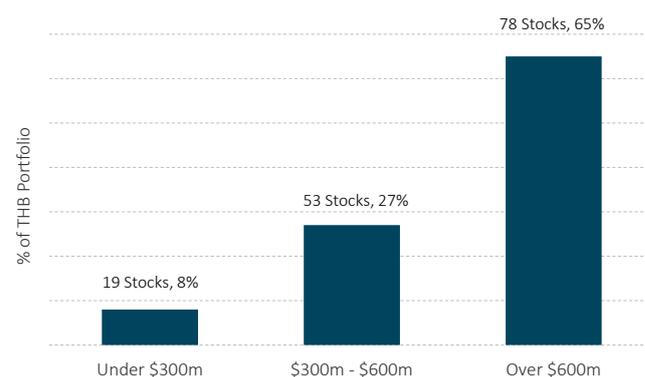
The bottom five performing stocks (from a contribution standpoint) were Soiken Holdings Inc. (Japan, Health Care, -0.4%), Avon Rubber p.l.c. (United Kingdom, Industrials, -0.3%), Biotage AB (Sweden, Health Care, -0.2%), Rozetta Corp (Japan, Industrials, -0.2%) and Ramelius Resources Limited (Australia, Materials, -0.2%).

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) ³
Inception date ²	23 August 2018
Fund size	A\$87 million

Net performance ¹ – 31 December 2020			
	Fund	MSCI World ex USA Small Cap®	MSCI World ex USA Micro Cap®
1 month	2.4%	2.0%	2.6%
3 months	6.6%	9.2%	10.4%
CYTD	10.5%	2.7%	9.6%
1 year	10.5%	2.7%	9.6%
Since inception ²	7.1%	5.2%	6.1%

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 ~2,500 constituents, the Index covers approximately 14% of the free float-adjusted market capitalisation in each country.
Source: MSCI

Portfolio commentary continued

This year witnessed an incredible amount of medical and scientific progress, a geopolitical pivot away from China, peak globalisation, increased awareness of and progress towards decarbonisation, geographic worker mobility and rapid corporate innovation. It is impossible to predict the exact impact from these events and developments, but they will affect markets and the economy for years to come. The status quo will shift creating both risks and opportunities. THB believes such an environment is ideal for smaller capitalisation equities and active management.

Efforts towards decarbonisation accelerated in this difficult year as corporations around the world made various pledges to lower their carbon footprint and governments gave monetary support necessary to achieve these goals. A confluence of events including a continued fall in production costs, governmental support/mandates, consumer awareness and corporate initiatives have served to accelerate green technologies and their utilisation. Many countries, regions and corporations have pledged to have substantially lower or zero carbon emissions in the next 15 to 30 years. Solar, wind, hydrogen, and clean/biofuels will all be necessary to achieve carbon targets. Many of the innovative companies within this universe are within the smaller capitalisation range. Electric vehicles and related industries receive the bulk of media coverage, however to achieve lower carbon targets, a host of technologies and fuels will need to be utilised. Smaller capitalisation companies offer exposure to these secular growth industries, but at reasonable valuations.

During the quarter Codemasters Group Holdings Plc was received a takeover bid from Electronic Arts which is superior to a prior takeover bid from Take Two Interactive.

During December, seven holdings in the International strategy announced acquisitions and five companies new share repurchase authorisations and well capitalised companies will continue to deploy capital to increase shareholder value.

Stocks in focus³

1980-JP (DAI-DAN Co., Ltd)

DAI-DAN Co., Ltd. engages in installation work. It offers plumbing, electrical, and air conditioning installations. It also designs, supervises, and constructs sanitary and fire protection facilities. The business is organised in the following segments: air conditioning work (61% of revenue), water sanitation construction (24% of revenue) and electrical work (16% of revenue). The Japanese Ministry of Economy, Trade and Industry's Basic Energy Plan is to have Net Zero Energy Buildings (ZEB) enforced on new constructed public buildings starting 2020. Additionally, the plan has a target of enforcing ZEB for an average of newly constructed buildings by 2030. In order to respond to ZEB, DAI-DAN has been developing technology related to energy saving by utilising its technical capabilities as a general equipment manufacturer. The company provides environmental air conditioning equipment and various air conditioning equipment for medical facilities, industrial facilities and special facilities such as animal breeding rooms. In medical facilities, the company provides air conditioning solutions for operating room and sick rooms for immuno-compromised patients. For example, DAI-DAN provides a duct clean room system that can maintain a uniform cleanliness distribution while making it ductless. Its solutions are also used to control room pressure and limit cross contamination in pharmaceutical factories.

5011-JP (Nichireki Co., Ltd.)

Nichireki Co., Ltd. engages in the provision of processed asphalt products, construction, civil engineering and technology services. Its operations are carried out through the following segments: Asphalt Processed Products Business, Road Pavement Business, and Others. The Road Pavement Business segment (69% of sales) handles contracting for road paving, waterproofing, water and sewage, and other civil engineering work including related survey, design and administration processes. The Asphalt Processed Products Business segment (31% of sales) manages the manufacture and sale of asphalt emulsion and modified asphalt. According to a World Economic Forum 2019 ranking, Japan had the 5th highest road quality score globally. The United States was ranked 17th. Since 1959, when Nichireki succeeded in developing and commercialising "CATIOZOL" as Japan's first cationic asphalt emulsion, the company has continued to supply a variety of products centred on paving materials. Today, the company has succeeded in establishing a brand image where the Nichireki name is synonymous with paving materials. The company owns four automatic road surface condition measuring vehicles approved by the Public Works Research Center that simultaneously measure the three road condition elements of "cracks", "ruts", and "flatness".

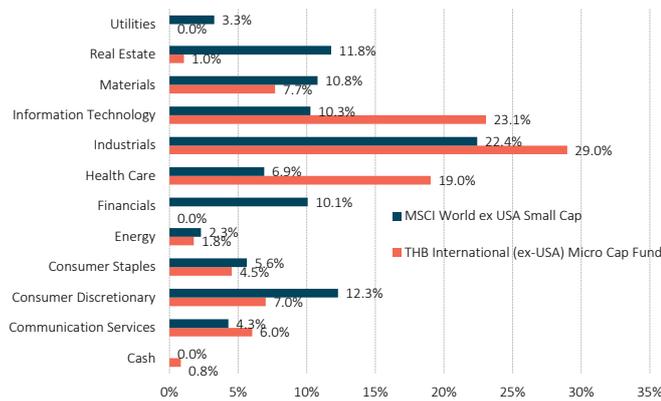
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Portfolio statistics⁵

As at 31 December 2020		
	Fund	Benchmark
Weighted avg market cap	US\$926m	US\$2,930m
Price/sales	2.0x	0.9x
Price/book	3.5x	1.4x
Dividend yield	1.2%	2.1%
Number of securities	150	2,511
Standard deviation	18.8%	17.0%
Sharpe ratio	0.9	0.5
Beta	1.1	
Tracking error	5.5	
Information ratio	1.5	

Source: THB Asset Management

Sector allocation⁶



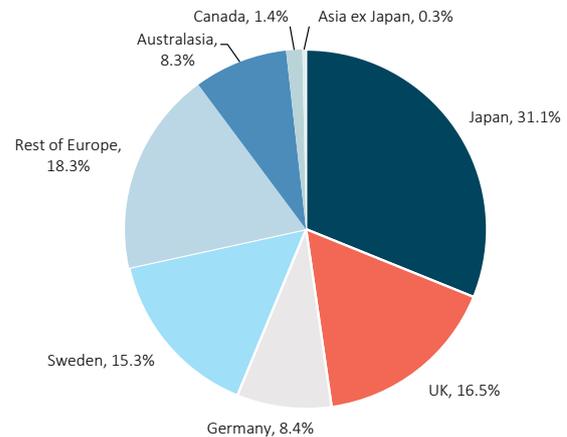
Source: THB Asset Management

Top 10 holdings⁶

Stock	Sector/Country	Portfolio weight
Swedencare	Healthcare/Sweden	1.9%
Eolus Vind	Industrials/Sweden	1.9%
Gurit Holding	Materials/Switzerland	1.8%
SeSa S.p.A.	Technology/Italy	1.8%
Verbio Vereinigte	Energy/Germany	1.8%
INVISIO	Industrials/Sweden	1.5%
Revenio Group Oyj	Healthcare/Finland	1.4%
Sectra	Healthcare/Sweden	1.4%
Focusrite	Consumer Disc/UK	1.4%
Judges Scientific	Industrials/UK	1.2%

Source: THB Asset Management

Country allocation⁶



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[®] Index.

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Asset Management

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