

THB US Micro Cap Fund

Monthly Report – January 2021

Market commentary

The Russell Microcap® Index (Index) returned +14.9% (AUD) in January 2021.

Consumer Discretionary (+45.7%) was the best performing sector, followed by Health Care (+13.8%), and Consumer Staples (+11.2%). Utilities (+1.8%) was the worst performing sector followed by Financials (+2.2%) and Materials (+5.3%).

US equities turned in mixed performance this month with leadership from smaller capitalisation equities. The Russell Microcap and Russell 2000 Small Cap returned +14.2% and +5.0% (USD) respectively as compared to -1.0% for the S&P 500. President Biden and his administration took office on January 20th and has started to announce parts of his agenda. Climate change and income inequality appear to be high priorities for his team. Economic data continues to highlight a robust recovery from 2019 levels, in particular housing starts which are coming in higher than anticipated at a 1.67M annualised rate, the highest level since 2006. Migration from densely populated urban areas and higher tax locations are spreading concentrated pockets of both population and wealth to other areas of the country. The ability and acceptance of work from home as allowed large parts of the population to seek out better qualities of life.

Portfolio commentary

The THB US Micro Cap Fund returned +9.6% in AUD (net of fees) in January, underperforming the Index by 5.2%.

The portfolio saw positive contribution from overallocation to Consumer Discretionary (+1.4%), Financials (1.3%), and stock selection in Energy. Negative contribution came from stock selection in Consumer Discretionary (-5.6%), Industrials (-1.2%), and overallocation to Industrials (-0.6%).

THB's top five performing stocks (from a contribution standpoint) were Hyster-Yale Materials Handling, Inc (Industrials, +1.0%), Renewable Energy Group, Inc. (Energy, +0.5%), Boot Barn Holdings, Inc. (Consumer Discretionary, +0.5%), Clean Energy Fuels Corp (Energy, +0.5%) and Retractable Technologies, Inc. (Health Care, +0.5%).

The bottom five performing stocks (from a contribution standpoint) were CIRCOR International, Inc. (Industrials,-0.2%), Allied Motion Technologies (Industrials,-0.1%), Randolph Bancorp, Inc. (Financials, -0.1%), NN, Inc. (Industrials,-0.1%) and Aspen Group, Inc. (Consumer Discretionary,-0.1%).

One of the largest detractors of relative performance was due Gamestop (GME), which was not held in the portfolio. The widely reported rise in the stock (+1587%) added 4.7% to the Russell Microcap benchmark return. Much of the attention has been focused on the so-called day traders who possibly caused the move higher and also the hedge funds who suffered major losses due to short positions in the stock. To understand the whole story, it might make sense to analyse why a ~\$12B hedge fund was short a sub ~\$1B market cap company with a short interest over 100% of the shares outstanding. THB have written about high short interest levels before and have often wondered if those risks might ever manifest themselves. The rise of risk parity and other hedged products has

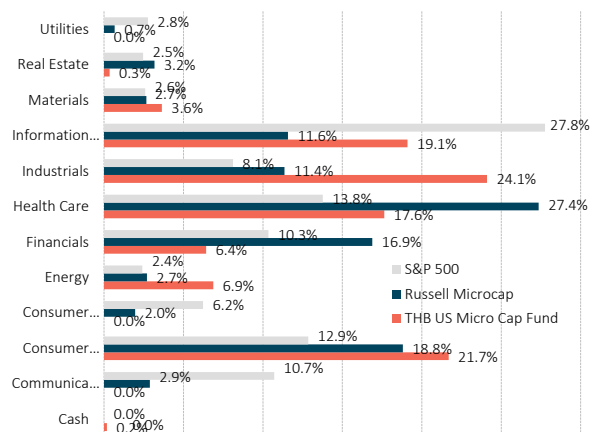
| Fund details | |
|----------------|--------------------------------------|
| Benchmark | Russell Microcap® Index ³ |
| Inception date | 5 September 2014 |
| Fund size | A\$84 million |

| Performance ¹ – 31 January 2021 | | | |
|--|-------------------|-------------------|------------|
| | Fund ² | Russell Microcap® | Difference |
| 1 month | 9.6% | 14.9% | (5.2%) |
| 3 months | 30.6% | 35.6% | (5.0%) |
| 1 year | 25.6% | 26.4% | (0.9%) |
| 2 years p.a. | 17.3% | 20.7% | (3.3%) |
| 3 years p.a. | 14.2% | 14.9% | (0.7%) |
| 5 years p.a. | 15.8% | 15.6% | 0.2% |
| Since inception p.a. ² | 14.0% | 14.9% | (0.9%) |

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 table may not sum correctly due to rounding.

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.

led to increasing levels of short interest.

During the month one holding announced a new \$100M repurchased authorisation and six companies announced new acquisitions.

Portfolio statistics⁵

| As at 31 January 2021 | | |
|-------------------------|------------|-------------------------------|
| | Fund | Russell Microcap [®] |
| Weighted avg market cap | US\$1,193m | US\$1,884m |
| Price/sales | 1.2x | 1.7x |
| Price/book | 2.4x | 2.3x |
| Dividend yield | 0.5% | 0.9% |
| Number of securities | 100 | 1,321 |
| Standard deviation | 21.7% | 22.0% |
| Sharpe ratio | 0.6 | 0.6 |
| Beta | 1.0 | |
| Tracking error | 6.1 | |
| Information ratio | 0.0 | |

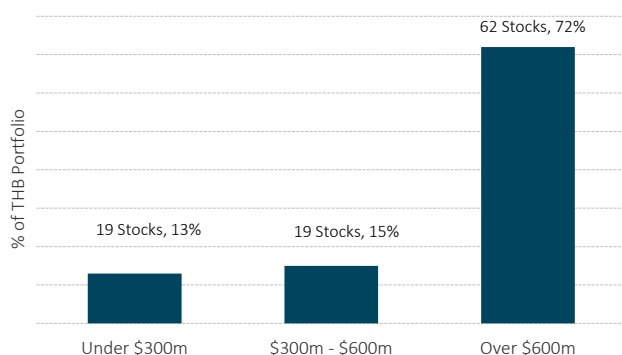
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

| Stock | Sector | Composite weight |
|-------------------------|----------------|------------------|
| Hyster-Yale Materials | Industrials | 3.0% |
| TPI Composites | Industrials | 2.7% |
| BJ's Restaurants | Consumer Disc | 2.4% |
| PAR Technology | Technology | 2.3% |
| Perficient | Technology | 2.2% |
| Guess | Consumer Disc. | 2.1% |
| Joint Corp | Health Care | 2.1% |
| First Busey Corporation | Financials | 2.1% |
| Renewable Energy Group | Energy | 2.0% |
| Clean Energy Fuels Corp | Energy | 2.0% |

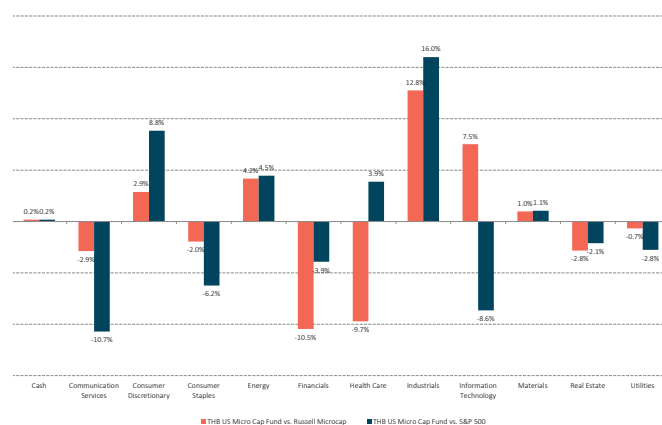
Source: THB Asset Management

Companies by market capitalisation



Source: THB Asset Management

Active sector positioning



Source: THB Asset Management

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.

BROOKVINE

THB
Asset Management

For more information contact:
Brookvine Client Service on +61 2 9328 6445
or clientservice@brookvine.com.au

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