

THB US Micro Cap Fund

Monthly Report – July 2021

Market commentary

The Russell Microcap® Index (Index) returned -3.5% (AUD) in July 2021. Utilities (+3.3%) was the best performing sector, followed by Materials (+1.1%), and Real Estate (+0.8%). Energy (-12.5%) was the worst performing sector followed by Health Care (-9.3%) and Consumer Discretionary (-8.5%).

U.S. equities delivered mixed performance with the S&P 500 and Nasdaq positive and reaching record highs during the month. Small cap equities continued to consolidate strong recent returns and were down modestly.

Although the Delta variant dominated media headlines and words such as “surge” reappeared in the news again, high frequency consumer data continued to accelerate, and sentiment increased. Flight activity, transit usage and hotel occupancy rates continued to climb higher in July with TSA traveler throughput reaching 80% of pre-Covid volumes. Consumer Confidence (a strong indicator of future economic prospects) improved for the sixth month in a row and reached the highest level since the pandemic began. The report included many positives such a 21 year high in the percentage of consumers who stated that job openings were “plentiful”, easing of future inflation expectations and an improvement in buying plans for homes, automobiles and appliances.

July saw a notable improvement in the unemployment rate to 5.4% from June’s 5.9% level. Average hourly earnings were up 4% YoY for the month which will be positive for consumer spending. The NFIB Small Business Optimism Index climbed to an eight-month high during the month with 39% of business owners stating they raised compensation in order to fill open positions. The U.S. July ISM survey noted companies are struggling to meet increasing demand levels with inventories depleted.

Portfolio commentary

The THB US Micro Cap Fund returned -0.6% in AUD (net of fees) in July, outperforming the Index by 2.9%.

The portfolio saw positive contribution from stock selection in Health Care (+3.1%), overallocation to Information Technology (+1.0%), and selection in Information Technology (+0.6%). Negative contribution came mainly from underallocation to Health Care (-0.4%), selection in Financials (-0.6%), and overallocation to Energy (-0.4%).

THB’s top five performing stocks (from a contribution standpoint) were Apollo Medical Holdings, Inc. (Healthcare, +0.6%), Perficient, Inc. (Information Technology +0.4%), Grid Dynamics Holdings, Inc. (Information Technology, +0.4%), Insteel Industries, Inc. (Industrials +0.3%), and Luna Innovations Incorporated (Information Technology, +0.3%).

The bottom five performing stocks (from a contribution standpoint) were TETRA Technologies, Inc. (Energy -0.6%), Clean Energy Fuels Corp. (Energy, -0.5%), TPI Composites, Inc. (Industrials, -0.4%), Red Robin Gourmet Burgers, Inc. (Consumer Discretionary, -0.3%) and PAR Technology Corporation (Information Technology, -0.3%).

During the month, THB’s portfolio companies announced six acquisitions and two new share repurchase authorisations.

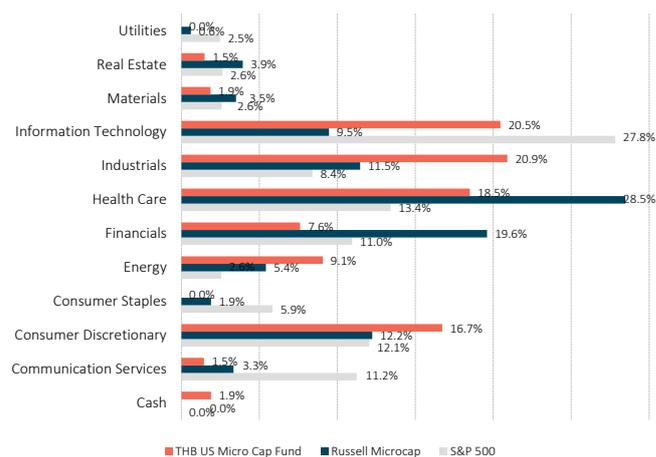
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$88.5 million

Performance ¹ – 31 July 2021			
	Fund ²	Russell Microcap®	Difference
1 month	(0.6%)	(3.5%)	2.9%
3 months	0.8%	3.1%	(2.4%)
1 year	66.3%	60.3%	6.0%
2 years p.a.	21.9%	22.6%	(0.7%)
3 years p.a.	12.9%	12.8%	0.1%
5 years p.a.	17.4%	16.4%	1.0%
Since inception p.a. ²	15.3%	15.6%	(0.2%)

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.

Portfolio statistics⁵

As at 31 July 2021		
	Fund	Russell Microcap®
Weighted avg market cap	US\$1,040m	US\$719m
Price/sales	1.3x	1.7x
Price/book	2.3x	2.1x
Dividend yield	0.5%	0.9%
Number of securities	95	1,732
Standard deviation	21.2%	21.4%
Sharpe ratio	0.7	0.6
Beta	1.0	
Tracking error	6.4	
Information ratio	0.1	

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

Top 10 holdings

Stock	Sector	Portfolio weight
First Busey Corporation	Financials	2.8%
Joint Corp	Health Care	2.7%
Perficient, Inc	Technology	2.5%
Hyster-Yale Materials Handling	Industrials	2.4%
BioLife Solutions, Inc	Health Care	2.4%
PAR Technology	Technology	2.2%
Movado Group, Inc	Consumer Disc	2.2%
ePlus inc	Technology	2.0%
Luna Innovations Incorporated	Technology	2.0%
Transcat, Inc	Industrials	1.8%

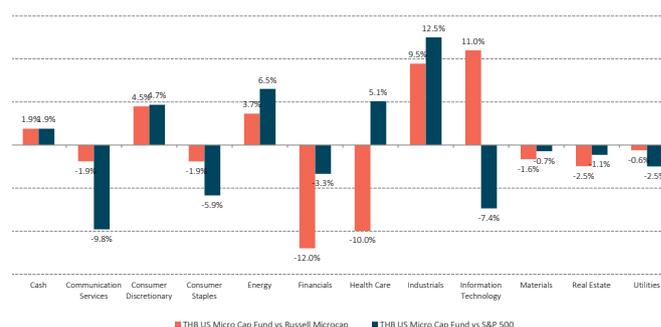
Source: THB Asset Management

Companies by market capitalisation



Source: THB Asset Management

Active sector positioning



Source: THB Asset Management

Investment strategy

THB Asset Management (THB), an investment franchise of Victory Capital Management Inc., is a dedicated micro and small cap specialist investment franchise based in Connecticut, USA. Founded in 1982, THB Asset Management has 39 years' experience investing in micro and small cap companies. 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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Asset Management
A VICTORY CAPITAL INVESTMENT FRANCHISE

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