

THB US Micro Cap Fund

Monthly Report – August 2021

Market commentary

The Russell Microcap® Index (Index) returned +4.2% (AUD) in August 2021.

Health Care (+7.3%) was the best performing sector, followed by Consumer Staples (+5.0%) and Materials (+4.3%). Consumer Discretionary (+0.6%) was the worst performing sector followed by Utilities (+0.8%) and Communication Services (+0.9%).

U.S. equities delivered positive performance in the month and continued to consolidate strong recent returns.

Mixed economic reports highlight the improving, but uneven cadence of the economic recovery. The ISM manufacturing index increased in August with gains in new orders and production and the unemployment rate fell to 5.2%. The temporary factors related to holding back the jobs recovery, such as enhanced federal unemployment benefits, and reduced availability of childcare should be mitigated once schools reopen and benefits expire in September. The U.S. consumer remains cash rich with household wealth at all-time high in real terms.

China's regulatory crackdown continued in August as more industries found themselves in the regulatory crosshairs, leading to massive divestments in the stocks of Chinese companies. Geopolitical risks and Covid-19 are forcing companies to reevaluate their supply chains. Taiwan Semiconductor's decision to build a \$12B chip factory in Arizona is an example that the views towards offshore manufacturing are changing. Continued onshoring and foreign investment in the US will have a positive impact on the smaller, domestic industries which will benefit from the sizeable capital spending and ongoing services needs.

Portfolio commentary

The THB US Micro Cap Fund returned +2.4% in AUD (net of fees) in August.

The portfolio saw positive contribution from underallocation to Communication Services (+0.9%), selection in Health Care (+0.8%), and underallocation to Financials (+0.5%). Negative contribution came mainly from selection in Communication Services (-1.4%), overallocation to Industrials (-0.8%), and an derallocation to Health Care (-0.7%).

The top five performing stocks (from a contribution standpoint) were Perficient, Inc. (Information Technology, +0.7%), Joint Corp (Health Care +0.6%), BioLife Solutions, Inc. (Health Care, +0.5%), Grid Dynamics Holdings Inc. Class A (Information Technology +0.5%), and Movado Group, Inc. (Consumer Discretionary, +0.5%).

The bottom five performing stocks (from a contribution standpoint) were EverQuote, Inc. Class A (Communication Services -0.6%), Hyster-Yale Materials Handling, Inc. Class A (Industrials, -0.4%), NN, Inc. (Industrials, -0.3%), Renewable Energy Group, Inc. (Energy, -0.3%) and America's Car-Mart, Inc. (Consumer Discretionary, -0.3%).

During the month, THB's portfolio companies announced seven acquisitions and one new share repurchase authorisation.

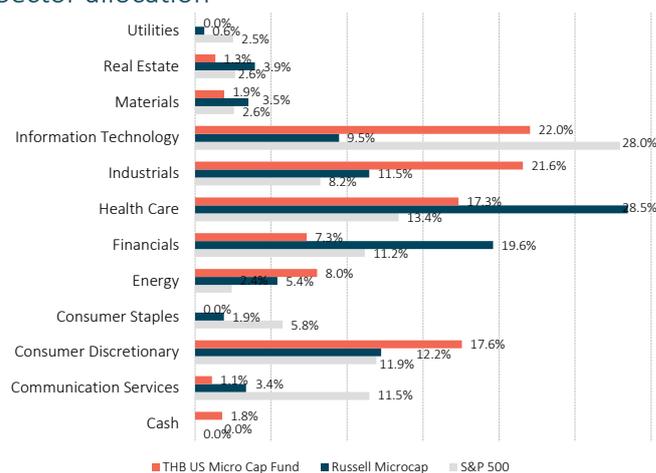
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$91.9 million

Performance ¹ – 31 August 2021			
	Fund ²	Russell Microcap®	Difference
1 month	2.4%	4.2%	(1.7%)
3 months	4.6%	5.5%	(0.9%)
1 year	63.2%	62.6%	0.7%
2 years p.a.	26.7%	27.8%	(1.1%)
3 years p.a.	11.2%	11.7%	(0.5%)
5 years p.a.	17.4%	16.5%	1.0%
Since inception p.a. ²	15.5%	16.0%	(0.5%)

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 August 2021		
	Fund	Russell Microcap®
Weighted avg market cap	US\$1,103m	US\$770m
Price/sales	1.2x	1.7x
Price/book	2.2x	2.2x
Dividend yield	0.5%	0.8%
Number of securities	93	1,725
Standard deviation	21.1%	21.3%
Sharpe ratio	0.7	0.6
Beta	1.0	
Tracking error	6.4	
Information ratio	0.1	

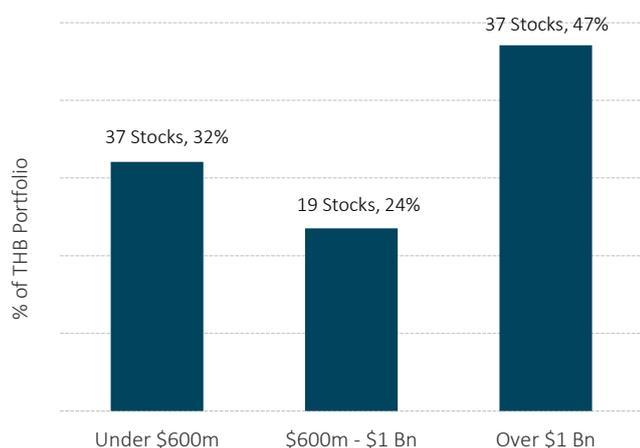
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
Perficient	Technology	3.1%
First Busey Corporation	Financials	2.7%
Movado Group	Consumer Disc	2.6%
BioLife Solutions, Inc	Health Care	2.4%
ePlus inc	Technology	2.4%
PAR Technology	Technology	2.3%
Transcat, Inc	Industrials	2.3%
Grid Dynamic Holdings	Technology	2.2%
Joint Corp	Health Care	2.0%
Hyster-Yale Materials Handling	Industrials	1.9%

Source: THB Asset Management

Companies by market capitalisation



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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