

# THB US Micro Cap Fund

## Monthly Report – October 2021

### Market commentary

The Russell Microcap® Index (Index) returned -1.7% (AUD) in October 2021.

Materials (+11.5%) was the best performing sector, followed by Energy (+6.0%), and Financials (+5.2%). Health Care (-2.2%) was the worst performing sector followed by Communication Services (-1.9%) and Consumer Staples (+1.6%).

U.S. stocks extended gains as worst-case fears around supply chain issues ebbed. Global supply chain constraints and raw material shortages/price increases have been weighing on sentiment. As companies reported third quarter earnings, commentary and outlook indicated the worst of that impact is likely behind us.

Outlooks emerging from the Q3 earnings season has been mostly upbeat with a strong demand backdrop and productivity measures largely offsetting supply chain issues and input price pressures. Positive comments from automakers around the easing of chip shortages highlighted that the bottlenecks were beginning to clear. October Consumer Confidence was up 4.5 points m/m to 113.8 which was ahead of estimates. The labour market outlook was also stronger, with the gap between those who see jobs plentiful vs hard to get improving 1.5 points. September new home sales came in above expectations, up +14% m/m to 800K, better than the 760K expected and was the fastest sales pace since March 2021.

### Portfolio commentary

The THB US Micro Cap Fund returned -2.2% in AUD (net of fees) in October 2021.

The portfolio saw positive contribution from underallocation to Communication Services (+0.5%), overallocation to Information Technology (+0.5%), and stock selection in Health Care (+0.4%). Negative contribution came mainly from stock selection in Communication Services (-0.8%), Consumer Discretionary (-0.4%), and Financials (-0.4%).

THB's top five performing stocks (from a contribution standpoint) were BioLife Solutions, Inc. (Health Care, +0.5%), Transcat, Inc. (Industrials, +0.4%), Renewable Energy Group, Inc. (Energy, +0.3%), Perficient, Inc. (Information Technology, +0.2%), and Ultra Clean Holdings, Inc. (Information Technology, +0.2%).

The bottom five performing stocks (from a contribution standpoint) were EverQuote, Inc. Class A (Communication Services -0.4%), Joint Corp. (Health Care, -0.2%), BJ's Restaurant Group Inc. (Consumer Discretionary, -0.2%), Orion Group (Industrials, -0.2%) and CIRCOR International, Inc. (Industrials, -0.2%).

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

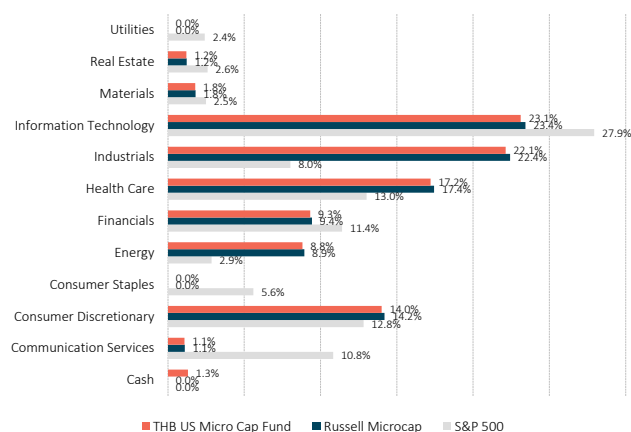
Fund details	
Benchmark	Russell Microcap® Index <sup>3</sup>
Inception date	5 September 2014
Fund size	A\$97.1 million

Performance <sup>1</sup> – 31 October 2021			
	Fund <sup>2</sup>	Russell Microcap®	Difference
1 month	(2.2%)	(1.7%)	(0.5%)
3 months	(3.4%)	0.6%	(4.0%)
1 year	45.5%	52.0%	(6.5%)
2 years p.a.	21.4%	24.1%	(2.7%)
3 years p.a.	13.6%	15.3%	(1.6%)
5 years p.a.	16.4%	16.7%	(0.3%)
Since inception p.a. <sup>2</sup>	14.2%	15.1%	(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 allocation<sup>4</sup>



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 statistics<sup>5</sup>

As at 31 October 2021		
	Fund	Russell Microcap®
Weighted avg market cap	US\$1,113m	US\$805m
Price/sales	1.2x	1.7x
Price/book	2.1x	2.2x
Dividend yield	0.5%	0.9%
Number of securities	96	1,763
Standard deviation	21.0%	21.1%
Sharpe ratio	0.6	0.6
Beta	1.0	
Tracking error	6.4	
Information ratio	0.1	

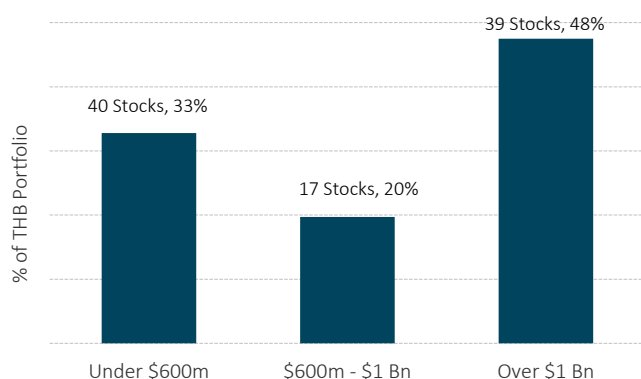
5. Portfolio statistics are reported in USD. Source: THB Asset Management

## Top 10 holdings

Stock	Sector	Portfolio weight
Perficient	Technology	3.5%
First Busey Corporation	Financials	2.8%
Transcat, Inc	Industrials	2.8%
ePlus inc	Technology	2.4%
Grid Dynamics Holdings	Technology	2.4%
BioLife Solutions, Inc	Health Care	2.2%
NAPCO Security Technologies	Technology	2.2%
PAR Technology	Technology	2.0%
LeMaitre Vascular, Inc	Health Care	1.9%
RPC, Inc	Energy	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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