

THB International Micro Cap Fund – Class W

Quarterly Report – Q1 2021

Market commentary

The MSCI World ex USA Small Cap® Index (Index) returned +6.3% (AUD) in Q1 2021.

Energy (+11.9%) was the best performing sector, followed by Financials (+10.4%) and Consumer Discretionary (+9.1%). Utilities (-1.7%) was the worst performing sector, followed by Health Care (+0.6%) and Real Estate (+0.7%).

Hong Kong (+19.8%) was the best performing country, followed by Netherlands (+15.8%) and Italy (+9.2%). New Zealand (-5.3%), Sweden (-0.5%) and Israel (+1.1%) were the worst performing countries in the Index.

The confluence of strong economic data, continued success in vaccine rollouts and better than expected corporate profits propelled International equities higher this quarter. Smaller capitalisation equities led with the MSCI World ex USA Small Cap Index rising 7.8%, compared to 6.9% for MSCI World ex USA Index.

Most developed market regions are quickly returning to pre Covid-19 levels of activity as coordinated government policies and rapid vaccine developments appear to have limited any long-term economic damage. Global PMIs (a measure of the prevailing direction of economic trends in manufacturing) rose to 57.5 in March, a 15 year high. All metrics of the German IFO (business climate) survey improved. The IFO manufacturing level reached the highest reading since 2018. It is expected that most developed market economies should fully reopen in the coming two to three months. Service sectors which have lagged other areas of the economy should react positively and sharply to the reopening. The Bank of Japan issued their policy review in March and assured markets that it is very focused on prolonging current monetary easing efforts. The Tankan survey also highlighted a sharp improvement in business sentiment offering confirmation of recovery from Covid-19 levels.

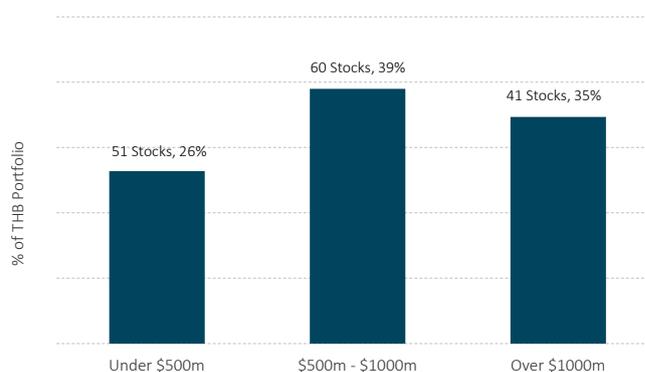
Going forward, additional government stimulus, a strong US Consumer, continued vaccine rollouts and pent-up capex demand should enable developed market economies to register above average growth levels. The US Consumer is in the healthiest position since the early 2000s and that bodes well for Asian export demand. Asian capex demand has been limited due to the 2018 trade tensions and Covid-19 downturn and now appears set to accelerate.

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) ²
Inception date	23 August 2018
Fund size	A\$88.4 million

Net performance – 31 March 2021			
	Fund ¹	MSCI World ex USA Small Cap ²	MSCI World ex USA Micro Cap ³
1 month	4.3%	3.9%	2.7%
3 months	1.6%	6.3%	9.6%
1 year	37.9%	32.7%	47.1%
2 years p.a.	15.0%	11.6%	16.0%
Since inception	7.1%	7.2%	9.3%

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. 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

2. 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 ~2,496 constituents, the Index covers approximately 14% of the free float-adjusted market capitalisation in each country. Source: MSCI

3. The MSCI World ex USA Micro Cap Index captures micro cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With ~4,735 constituents, the index covers approximately 1% of the free float-adjusted market capitalisation in each country.

Portfolio commentary

The THB International (ex-USA) Micro Cap Fund- Class W returned +1.8% (AUD, net of fees) in Q1.

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

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

The top five performing stocks (from a contribution standpoint) were Verbio Vereinigte BioEnergie AG (Germany, Energy, +0.5%), Basler AG (Germany, Information Technology, +0.4%), Hexatronic Group AB (Sweden, Industrials, +0.3%), Aptitude Software Group Plc (United Kingdom, Information Technology, +0.3%), and Eckert & Ziegler AG (Germany, Health Care, +0.3%).

The bottom five performing stocks (from a contribution standpoint) were Sectra AB (Sweden, Health Care, -0.4%), Invisio AB (Sweden, Industrials, -0.3%), Xvivo Perfusion AB (Sweden, Health Care, -0.2%), Nanosonics Limited (Australia, Health Care, -0.2%) and BioGaia AB (Sweden, Health Care, -0.2%).

Covid-19 and the past twelve months have further reinforced THB's belief that predicting the future can be incredibly difficult for even the best and brightest minds. The Goldman Sachs call of 25% peak unemployment was just one of many dire predictions which thankfully ended up not being true.

THB believes dramatic changes are taking place in Global economies which are charting a course different than we experienced in the previous decade. These changes (macroeconomic, geopolitical, technological and consumer behaviour) provide great investment opportunities within the smaller capitalisation investing universe. THB believes the nimble aspects of smaller companies combined with an actively managed approach can provide attractive investment returns from what appears to be changes in the status quo. Instead of trying to make exact predictions about the future, THB will employ its time-tested philosophy and continue to invest in companies it believes can create sustainable shareholder value for its clients

During the quarter, THB's portfolio companies announced six share repurchase authorisations and 19 acquisitions. THB believes that such deployment of capital highlights confidence in their business prospects and alignment with shareholders.

Stocks in focus

Two recent additions to the portfolio are companies THB believes can adapt and thrive in a post Covid-19 environment.

Furukawa Battery (Japan)

Furukawa manufactures and distributes storage batteries designed for automotive and industrial applications. The company has leading edge technology such as bi-polar batteries and next generation lithium ion systems. Recently, the company jointly established the Advanced Battery Research Institute (ABRI) with Tokyo Metropolitan University to accelerate the development of next-generation lithium-ion batteries. The company has developed MgBOX (Magnesium

Air Battery) which is power supply system for emergency use. The MgBOX can be stored for long periods and is activated by simply adding fresh or salt water. Once activated, an MgBOX will provide a source of electricity for up to five days via a USB adaptor box or hub. Devices that can be connected to the USB adaptor box include lights and smartphones. The MgBOX was selected as the "recommended product for fire safety and disaster preparedness" by Fire Equipment and Safety Center of Japan and is also a Green Purchasing Law-compliant product. In 2017, the company signed an agreement with I-WIND (Inter Far East Wind International Co., Ltd.) in Thailand for the supply of their Ultra battery, which is to be utilised in wind power generation projects.

PVA TePla AG (Germany)

PVA TePla provides vacuum solutions for high-temperature and plasma treatment processes in the fields of hard metal sintering, crystal growing, the use of plasma systems for surface activation and ultra-fine cleaning as well as systems for quality inspection. The business is organised in two segments: Semiconductor (66%) and Industrials System (34%). The company is the only provider of crystal-growing tools for Silicon Carbide (SiC) wafer producers which is increasing in demand due to the growth in electric vehicles, renewable energy and advanced industrial applications. If electric vehicle market share climbs to 30% (estimates assume this will happen by 2030), manufacturers will need approximately 6,000 SiC growing systems similar to those provided by the company. The company is developing new product variant of high-vacuum brazing furnace in the Vacuum Systems product area and ultrasound measurement system to speed up the inline volume inspection of power modules for electric cars and renewable energies. Recently PVA TePla acquired Okos Solution LLC, which builds measuring equipment for the quality inspection of high-tech products for the aerospace and semiconductor markets. The acquisition strengthens the PVA TePla Group's access to the US market for its ultrasonic measuring instruments.

Portfolio statistics⁴

As at 31 March 2021		
	Fund	Benchmark
Weighted avg market cap	US\$916m	US\$3,053m
Price/sales	2.0x	1.2x
Price/Book	3.5x	1.7x
Dividend yield	1.2%	1.9%
Number of securities	152	2,529
Standard deviation	18.5%	16.7%
Sharpe ratio	0.9	0.5
Beta	1.1	
Tracking error	6.0	
Information ratio	1.4	

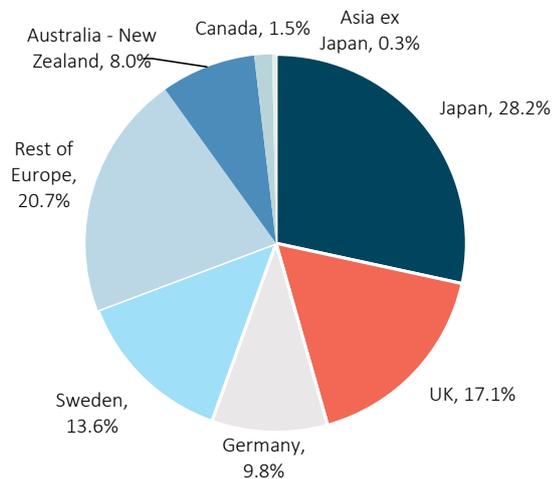
Source: THB Asset Management

Top 10 holdings⁵

Stock	Sector/Country	Portfolio weight
SeSa S.p.A.	Technology/Italy	1.7%
Gurit Holding	Materials/Switzerland	1.6%
Basler	Technology/Germany	1.6%
Focusrite	Consumer Disc/UK	1.4%
Revenio Group	Healthcare/Finland	1.4%
Treatt	Materials/UK	1.4%
secunet Security Networks	Technology/Germany	1.3%
NEXUS	Healthcare/Germany	1.2%
Judges Scientific	Industrials/UK	1.2%
Kainos Group	Technology/UK	1.2%

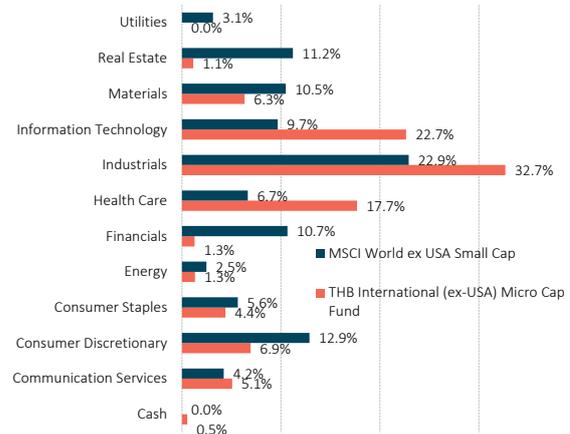
Source: THB Asset Management

Country allocation⁵



Source: THB Asset Management

Sector allocation⁵



Source: THB Asset Management

4. Portfolio statistics are reported in USD.

5. 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.

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 37 years' experience investing in micro and small cap companies. THB's International Opportunities 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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For more information, contact Brookvine Client Service on +61 2 9328 6445 or clientservice@brookvine.com.au

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