

THB US Micro Cap Fund

Quarterly Report – Q1 2021

Market commentary

The Russell Microcap® Index (Index) returned +25.5% (AUD) in Q1 2021.

Energy (+41.6%) was the best performing sector in Q1 followed by Consumer Discretionary (+40.3%) and Materials (+37.4%). Utilities (+7.2%) was the worst performing sector, followed by Consumer Staples (+11.4%) and Health Care (+15.4%).

The confluence of strong economic data, continued success in vaccine rollouts and better than expected corporate profits propelled US equities higher this quarter. Smaller capitalisation equities led with the Russell Small Cap Index and Russell Microcap Index rising 12.4% and 23.9% (in USD) respectively, compared to 6.2% for the S&P 500. Style had a strong divergence as the Russell 2000 Growth Index was up 4.8% compared to 20.7% for the Russell 2000 Value Index. The style divergence was apparent in the S&P 500 Equal weighted return of 11.0% compared to the NYSE FAANG Index return of 2.6%.

Economic data continues to highlight a robust recovery from 2019 levels and housing has been particularly strong with January housing starts 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 and driving demand for new housing. States experiencing inbound migration tend to have greater economic output and growth. California, New York, New Jersey, Michigan, Illinois and Connecticut are experiencing the largest amount of outbound migration while Florida, Texas, Tennessee, Ohio and Arizona are benefiting from population growth. This migration directly effects companies THB owns such as homebuilders, restaurants, banks and indirectly effects all companies in their efforts to find and retain talented employees.

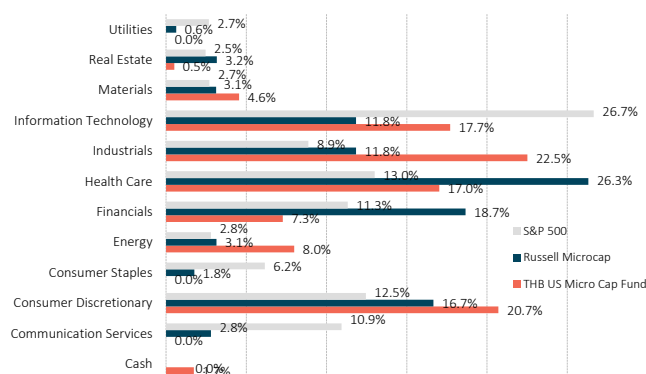
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$98.2 million

Performance ¹ – 31 March 2021			
	Fund ²	Russell Microcap®	Difference
1 month	5.3%	4.0%	1.3%
3 months	25.9%	25.5%	0.4%
1 year	95.2%	77.1%	18.1%
2 years p.a.	23.8%	22.9%	0.9%
3 years p.a.	17.6%	16.8%	0.8%
5 years p.a.	19.7%	18.3%	1.4%
Since inception p.a. ²	16.1%	16.1%	0.0%

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 commentary

The THB US Micro Cap Fund returned +25.9% in AUD (net of fees) in Q1.

The portfolio saw positive contribution from overallocation to Consumer Discretionary (+1.7%), underallocation to Health Care (+0.8%), and stock selection in Health Care (+0.8%). Negative contribution came mainly from selection in Industrials (-1.6%), Consumer Discretionary (-1.4%), and Financials (-0.5%).

The top five performing stocks (from a contribution standpoint) were Joint Corp (Health Care, +1.4%), Ultra Clean Holdings, Inc. (Information Technology, +1.4%), U.S. Concrete, Inc. (Materials, +1.2%), Hyster-Yale Materials Handling (Industrials, +1.2%), and Sleep Number Corporation (Consumer Discretionary, +1.2%).

The bottom five performing stocks (from a contribution standpoint) were Aspen Group, Inc. (Consumer Discretionary, -0.2%), Orion Energy Systems, Inc. (Industrials, -0.2%), Ping Identity Holding Corp (Information Technology, -0.2%), Broadwind, Inc. (Industrials, -0.2%) and BioLife Solutions, inc. (Health Care, -0.2%).

Covid-19 and the past 12 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 the US and 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.

Stocks in focus

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

Movado Group (MOV)

Movado Group designs, sources, markets and distributes quality watches globally. The business has iconic watch brands such as Movado, MVMT and licensed brands such as Tommy Hilfiger, HUGO BOSS, Coach, Lacoste and Calvin Klein. Movado acquired MVMT watches, a young lifestyle watch brand in Oct 2018, which has significant influencers such as professional skateboarder Nyjah Huston. Movado is expanding its direct-to-consumer (e-commerce) business, currently representing 27% of revenues (with wholesale representing 73% of sales). Direct e-commerce sales have experienced a sharp rise due to the pandemic and management has invested resources to expand that sales channel. Direct-to-consumer and strong digital presence increases brand awareness and opens cross branding opportunities. Management has also removed approximately 20% of operating expenses during the prior year and is poised to demonstrate meaningful operating leverage as demand continues to pick up.

Trean Insurance Group (TIG)

Trean Insurance is a modern fintech company that is more efficient in the underwriting and administration of niche, old-line insurance claims. They underwrite specialty casualty insurance such as worker's comp for small to mid-sized programs. Worker's compensation represents 83% of revenues for the business, with 49% of gross premiums represented in California. Trean represents a best in class operator. The business currently averages 80 open claims per adjuster vs the industry average of 125 open claims per claims adjuster. The business provides better claims outcomes (average medical cost per claim \$10.8k vs California comp average of \$29.5k), quicker claim inventory reduction (closed indemnity claims in the next year at 68% vs California average of 38%) and faster claim closure than peers (4 year paid to incurred losses at 82% vs U.S. average of 70%).

During the quarter, THB's portfolio companies announced six share repurchase authorisations totaling approximately \$359M and 15 acquisitions. THB believes that such deployment of capital highlights confidence in their business prospects and alignment with shareholders.

Portfolio statistics⁵

As at 31 March 2021		
	Fund	Russell Microcap [®]
Weighted avg market cap	US\$1,300m	US\$1,396m
Price/sales	1.4x	1.8x
Price/book	2.5x	2.5x
Dividend yield	0.4%	0.8%
Number of securities	100	1,325
Standard deviation	21.7%	21.8%
Sharpe ratio	0.7	
Beta	1.0	
Tracking error	6.3	
Information ratio	0.2	

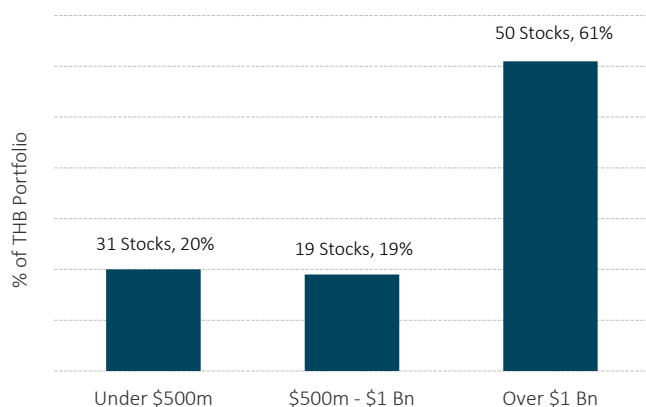
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Composite weight
Joint Corp	Healthcare	2.7%
First Busey Corporation	Financials	2.7%
BJ's Restaurants	Consumer Disc	2.5%
Hyster-Yale Materials Handling	Industrials	2.5%
US Concrete	Materials	2.4%
Clean Energy Fuels Corp	Energy	2.3%
Ultra Clean Holdings	Technology	2.2%
TPI Composites	Industrials	2.2%
Perficient	Technology	2.1%
PAR Technology	Technology	2.1%

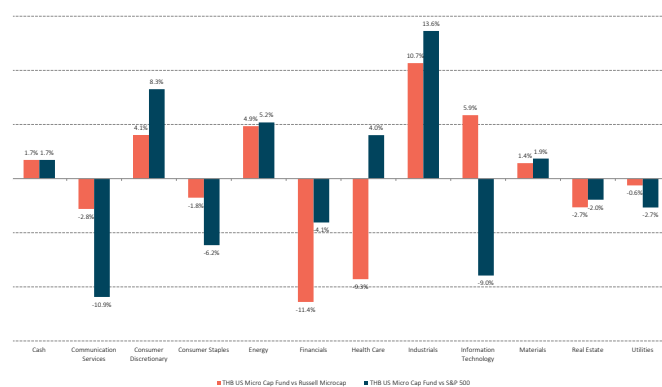
Source: THB Asset Management

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 37 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.

BROOKVINE

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VICTORY CAPITAL INVESTMENT FRANCHISE

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