

THB International Micro Cap Fund – Class W

Quarterly Report – Q2 2021

Market commentary

The MSCI World ex USA Small Cap® Index (Index) returned +6.3% (AUD) in Q2 2021.

Energy (+8.7%) was the best performing sector, followed by Real Estate (+8.4%), and Health Care (+6.5%). Consumer Staples (+0.1%) was the worst performing sector, followed by Utilities (+1.5%) and Materials (+2.9%).

Israel (+11.7%) was the best performing country, followed by Denmark (+11.6%) and Sweden (+10.8%). Japan (-0.9%), Singapore (+1.4%), and Norway (+1.8%) were the worst performing countries in the Index.

Developed market equities delivered solid gains during the quarter as the MSCI World ex USA Index and MSCI World ex USA Small Cap Index registered gains of 5.7% and 4.8% respectively. Investors are shrugging off uneven levels of developed market vaccination rates and economic data as the trend towards full reopening and pre-Covid levels of economic growth remains intact.

Recent military saber rattling and provocative talk between China and a host of Western nations has continued throughout the quarter. Covid-19 has been catalyst for many nations to reexamine their economic ties with China. Western countries are quickly coalescing and forming mutually beneficial trade agreements while also taking legal and regulatory steps to decrease China's influence on their economies and corporations.

The recent Free Trade Agreement (FTA) between the United Kingdom and Australia is expected to be mutually beneficial, adding jobs and business opportunities in both countries. Australian producers will benefit from access to the entire UK market to operate within, while consumers will benefit from cheaper UK goods subsequent to the elimination of all tariffs within the next five years. The FTA is a comprehensive effort to expand the economies of both countries as consumers will have more spending money from decreased tariffs while producers and skilled labourers both receive access to larger markets.

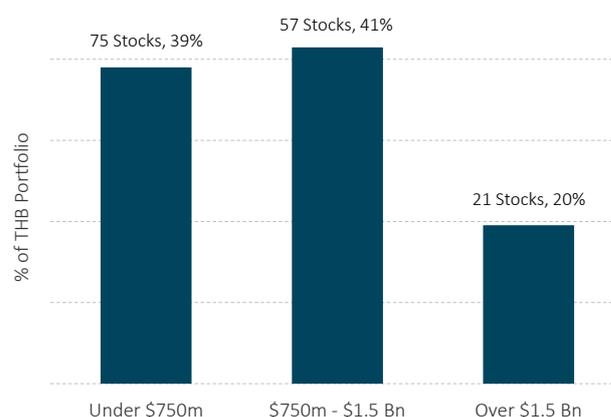
On June 4, 2021, President Biden signed an amendment to former President Trump's order to ban U.S. investment in certain Chinese companies. The ban includes 59 Chinese firms, including Huawei and China's telecom giants, that have a connection to China's military or are in the surveillance industry. Companies may also be added for operating with unfair trade practices and/or in violation of human rights. Companies on Biden's list that were not on Trump's include aerospace/military, financials, microelectronics/semiconductors, industrials, and communication/surveillance businesses. The ban will become effective as of August 2, at which point investors will be unable to purchase any of the securities on Biden's list. Any investor who has preexisting exposure to these companies has one year to divest completely.

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) ²
Inception date	23 August 2018
Fund size	A\$95.2 million

Net performance – 30 June 2021			
	Fund ¹	MSCI World ex USA Small Cap ²	MSCI World ex USA Micro Cap ³
1 month	1.5%	1.5%	1.8%
3 months	7.3%	6.3%	7.4%
1 year	29.6%	30.5%	41.4%
2 years p.a.	15.3%	13.5%	18.5%
Since inception	9.1%	8.9%	11.2%

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. 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.

Market commentary (continued)

Collectively, these actions should form a positive demand backdrop for smaller-capitalisation developed market equities whose revenue sources tend to be primarily domestic. As nations focus more on onshoring and/or seek to source goods from outside of China, new business opportunities will emerge.

ESG considerations continue to garner attention in the equity markets and have quickly become a larger part of every (public or private) company's thought process. Corporations and governments are simultaneously setting decarbonisation goals and workforce composition targets. The rapidly developing combination of voluntary and mandatory targets is creating a sizable ecosystem of companies which provide products and services that help corporations and nations achieve their goals.

Portfolio commentary

The THB International (ex-USA) Micro Cap Fund returned 7.3% (net of fees).

Contributors to the portfolio's performance were overallocation and stock selection in Sweden, and stock selection in Italy. Detractors from performance included under allocation to Canada, and over allocation and stock selection in Japan.

From a sector perspective, primary contributors to performance mainly came from underallocation to Real Estate, overallocation to Healthcare and stock selection in Financials. Selection in Real Estate, underallocation to Financials, and selection in Industrials were primary detractors of performance this month.

THB's top five performing stocks (from a contribution standpoint) were secunet Security Networks AG (Germany, Information Technology, +0.51%), SeSa S.p.A. (Italy, Information Technology +0.51%), Revenio Group Oyj (Finland, Health Care, +0.38%), Eckert & Ziegler, Inc. (Germany, Health Care, +0.36%) and Biotage AB. (Sweden, Health Care, +0.31%).

The bottom five performing stocks (from a contribution standpoint) were BeNext-Yumeshin Group Co., (Japan, Industrials, -0.18%), Gurit Holding AG (Switzerland, Materials, -0.17%), Soiken Holdings Inc., (Japan, Consumer Staples, -0.14%), Avon Rubber p.l.c., (United Kingdom, Industrials, -0.14%), and JCU Corporation, (Japan, Materials, -0.14%)

During the quarter, THB's portfolio companies announced six share repurchase authorisations and 28 acquisitions. THB continues to believe that such deployment of capital highlights confidence in their business prospects and alignment with shareholders.

The Covid-19 pandemic has spurred a host of geopolitical, technological and economic changes in the world economy. These changes are happening in real time and at a pace faster than we have ever experienced. However, some positive developments may emerge from the dislocations we have experienced. Wage inflation, while a concern for some, may be the catalyst for the long-awaited capex cycle markets have been waiting for. For many years, companies utilised offshoring to increase margins and mitigate any home country wage pressures. The recent pivot toward onshoring and away from China may force companies to deploy capital expenditures to efficiency and productivity projects. Companies that

supply software, robotics, artificial intelligence, logistics and services should stand to benefit as corporations divert capex into various projects.

The uneven recovery of developed market economies should give way to a more synchronised participation rate. The solutions for ending the Covid-19 pandemic (effective vaccinations) exist, yet issues remain with the administration of the solution. As we move into the second half of the year, the majority of these bottlenecks should dissipate.

Stocks in focus

Two holdings which are benefiting from the ESG trends are listed below:

Landis+GYR Group AG (Switzerland)

Landis+Gyr, founded in 1896, is one of the largest global manufacturers of metering products for the electric, gas, and water industries. Their latest generation of metering products specialises in smart meters which are integrated via cloud systems, allowing utility operators to manage, monitor and analyse their endpoints in real time. Recent partnership announcements with Google and Vodafone highlight the digitalisation of the metering industry.

Landis+Gyr has over 30% global market share, and the industry is growing from trends in Digitalisation, Decarbonisation, and Decentralisation. Electric grids are becoming more data-centric and need real-time information, which is creating a replacement cycle in metering products. There is demand for metering products to become fully integrated and allow smart monitoring and management. Decarbonisation efforts are driving increased demand for electrical power distribution points (EV charging stations) and corresponding measurement systems (meters). Lower-carbon energy production sources such as wind and solar are sometimes disconnected from the existing grid infrastructure and require advanced metering systems for the management and distribution of these power sources.

S-Pool (Japan)

S-Pool is a staffing company which operates two divisions (Special Needs Employment Service and Human Resources Solutions). The Special Needs Employment division provides employment opportunities for special needs/disabled workers through various programs and relationships with large corporations. Clients include Panasonic, Lacoste, Zurich, Fuji and Xerox, which utilise S-Pool's expertise to find and employ workers with special needs. Increasing government employment quotas for disabled workers are driving demand for S-Pool's services. Japan is steadily increasing disabled employment mandates, yet only 49% of corporations are in compliance. Increasing fines, and heightened awareness of ESG will continue to create demand for S-Pool's services. The company has an 80%+ market share in the special needs employment sector and has contracts with approximately 2,000 special needs employees. S-Pool also has an environmental division which is providing services and employees to corporations seeking to reduce carbon emissions and pursue carbon credit mediation strategies.

Portfolio statistics⁴

As at 30 June 2021		
	Fund	Benchmark
Weighted avg market cap	US\$1,051m	US\$3,197m
Price/sales	1.9x	1.3x
Price/Book	3.4x	1.7x
Dividend yield	1.5%	1.9%
Number of securities	153	2,591
Standard deviation	18.2%	16.4%
Sharpe ratio	0.9	
Beta	1.1	
Tracking error	5.9	
Information ratio	1.3	

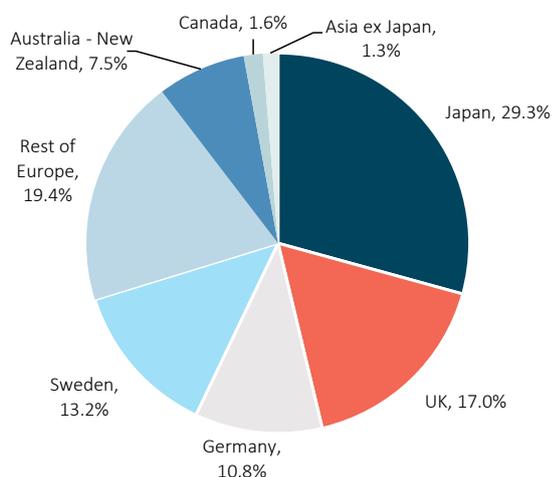
Source: THB Asset Management

Top 10 holdings⁵

Stock	Sector/Country	Portfolio weight
SeSa S.p.A.	Technology/Italy	1.8%
secunet Security Networks	Technology/Germany	1.7%
Revenio Group	Health Care/Finland	1.7%
Focusrite	Consumer Disc/UK	1.6%
El.En. S.p.A.	Healthcare/Italy	1.4%
NEXUS	Health Care/Germany	1.4%
Treatt	Materials/UK	1.2%
SHIFT Inc	Technology/Japan	1.2%
Basler	Technology/Germany	1.2%
Biotage	Health Care/Sweden	1.2%

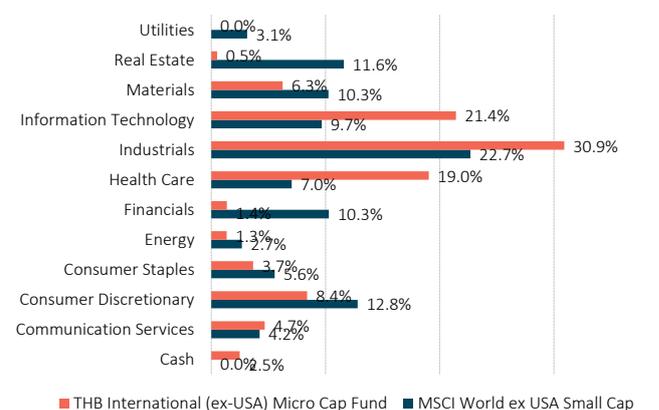
Source: THB Asset Management

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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