

THB US Micro Cap Fund

Quarterly Report – Q2 2021

Market commentary

The Russell Microcap® Index (Index) returned +5.7% (AUD) in Q2 2021.

Consumer Discretionary (+11.6%) was the best performing sector, followed by Energy (+10.5%), and Real Estate (+7.2%). Industrials (-0.5%) was the worst performing sector followed by Information Technology (+1.1%) and Financials (+2.1%).

Equities advanced this quarter, reflecting continued optimism about post-Covid economic growth and continued expansive monetary policy from the Federal Reserve. However positives such as fiscal stimulus, stronger than expected economic data, and improving vaccination rates were offset by concerns about wage/price inflation and inability to fill job openings. Larger capitalisation equities led the market as the S&P 500 (+8.6%) and NYSE FAANG Index (+12.3%) outperformed the Russell 2000 Index (+4.1%) and Russell Mid Cap Index (+7.5%)

Employment continues to strengthen, but overall numbers remain below pre-Covid levels. The U.S. ADP employment survey reported an increase of about 692,000 jobs, in the nonfarm private sector from May to June versus a consensus estimate of 550,000. One interesting aspect of this report is that it reflects a surge of new jobs in construction and manufacturing. This is of course before the impact of any infrastructure spending, which may further increase demand for workers in those sectors. Employment data can be volatile from month to month, but anecdotal information THB is hearing from companies is reflective of a labour market which is tighter than what is being reflected in overall unemployment figures. The reason cited is a decrease in available workers stemming from Covid-19. A confluence of some older workers having simply decided not to return to the workforce, younger workers seeking career changes, WFH increasing mobility, and the continuation of unemployment benefits are all causing localised and sector-specific challenges in filling job openings.

The US housing industry continues to be a source a strength for the US economy. The strong housing market creates jobs, has a positive impact on the US consumer and is additive to the wealth effect. US household wealth has reached all time of high of \$139 trillion.

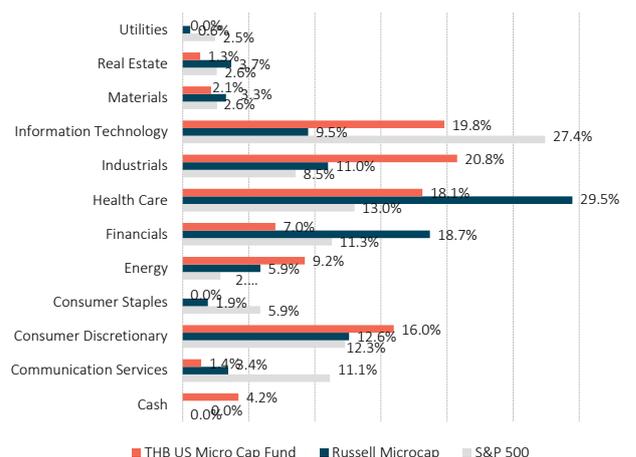
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$99.2 million

Performance ¹ – 30 June 2021			
	Fund ²	Russell Microcap®	Difference
1 month	2.7%	4.9%	(2.2%)
3 months	1.0%	5.7%	(4.6%)
1 year	69.7%	61.2%	8.5%
2 years p.a.	23.0%	25.1%	(2.1%)
3 years p.a.	13.3%	13.9%	(0.6%)
5 years p.a.	18.5%	17.9%	0.6%
Since inception p.a. ²	15.6%	16.4%	(0.8%)

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 1.0% in AUD (net of fees) in Q2 2021.

The portfolio saw positive contribution from stock selection in Health Care (+2.6%), underallocation to Financials (+0.9%), and selection in Real Estate (+0.5%). Negative contribution came mainly from selection in Consumer Discretionary (-2.5%), selection in Financials (-1.1%), and overallocation in Industrials (-1.1%).

THB's top five performing stocks (from a contribution standpoint) were Joint Corp. (Health Care, +1.5%), Perficient, Inc. (Information Technology +0.8%), Apollo Medical Holdings, Inc. (Health Care, +0.6%), LeMaitre Vascular Inc. (Health Care +0.4%), and TETRA Technologies, Inc. (Energy, +0.4%).

The bottom five performing stocks (from a contribution standpoint) were Clean Energy Fuels Corp. (Energy -0.6%), BJ's Restaurants, Inc. (Consumer Discretionary, -0.4%), Hyster-Yale Materials Handling Inc., (Industrials, -0.4%), Amneal Pharmaceuticals, Inc. (Health Care, -0.3%) and TPI Composites, Inc. (Industrials, -0.3%).

During the quarter, THB's portfolio companies announced two share repurchase authorisations of approximately \$60M and 19 acquisitions totaling approximately \$550M.

Looking forward, THB remains excited about the changing market, economic, technological and geopolitical landscape we are witnessing. While some spend an inordinate amount of time worrying about and/or trying to predict the exact outcome of these changes, the team will continue to focus on the opportunities they create.

Stocks in focus

Two recent additions to the strategy are below:

EverQuote Inc. (EVER)

Founded in 2011, EverQuote is the largest online affiliate marketplace to compare auto, home, and life insurance products. It allows users to directly compare insurance quotes from hundreds of providers simultaneously to give consumers the best price on coverage. The company's proprietary, data-based algorithms enable consumers to lower costs and providers to better match/manage risks. Large insurance providers are eager to pay for targeted referrals because this lowers their customer acquisition costs and increases their conversion rates. EverQuote is benefiting from the major shift in consumer behaviour as consumers are increasingly spending time online, which is rapidly shifting more of the US insurance market's \$150B annual distribution spend toward digital channels. Digital spend in this market is currently only \$6.5B, but growing much faster than the overall industry. The company is expanding their addressable market by aggressively targeting the home and life insurance segments.

Vera Bradley Inc. (VRA)

Founded in 1982, Vera Bradley is a recognised brand for women's handbags, luggage and travel items, and is known for its iconic fabric prints and patterns. The company is the third largest (by volume) domestic seller of handbags and the number one seller of women's duffle bags. Vera Bradley has a strong direct-to-consumer presence through a multi-channel exposure while maintaining a relatively lower brick-and-mortar cost structure through a total of 143 stores (approximately 50% of which are outlets), resulting in strong free cash flow generation and a debt-free balance sheet. Management is near the end of a multi-year transformation plan to shift the brand position to a full-price strategy, with a focus on online and factory outlet channels, and reduce overall SG&A expenses. In July 2019 the company acquired 75% of Creative Genius, Inc., the owner of Pura Vida, a designer of bracelets, jewelry and other accessories via online, subscription and wholesale accounts, which expanded its offering in highly synergistic and high-margin product lines. To drive growth, VRA is expanding Pura Vida's offering and infrastructure. The brand will be fully integrated into VRA's unified technology platform this fall, which will assist in sourcing, CRM, and data analytics. We believe VRA is well-positioned to benefit from the post-Covid recovery in demand for travel, accessories, and back-to-school items supported by a strong new product innovation pipeline.

Portfolio statistics⁵

As at 30 June 2021		
	Fund	Russell Microcap®
Weighted avg market cap	US\$1,102m	US\$729m
Price/sales	1.4x	1.8x
Price/book	2.4x	2.3x
Dividend yield	0.5%	0.8%
Number of securities	95	1,738
Standard deviation	21.3%	21.4%
Sharpe ratio	0.7	
Beta	1.0	
Tracking error	6.3	
Information ratio	0.01	

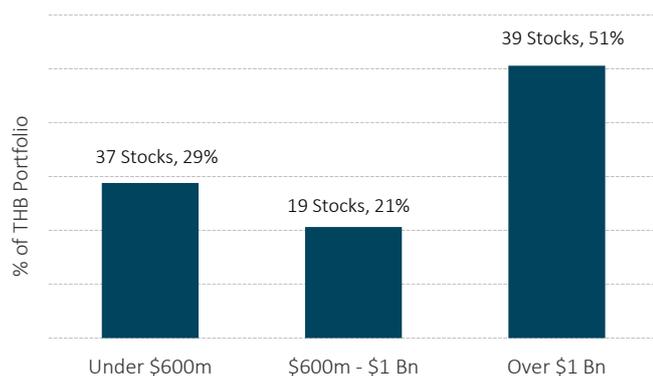
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
Joint Corp	Health Care	3.1%
Perficient	Technology	2.9%
First Busey Corporation	Financials	2.6%
PAR Technology	Technology	2.2%
Hyster-Yale Materials Handling	Industrials	2.1%
Movado Group	Consumer Disc	2.0%
BioLife Solutions	Health Care	1.9%
Ultra Clean Holdings	Technology	1.9%
TPI Composites	Industrials	1.9%
LeMaitre Vascular	Health Care	1.8%

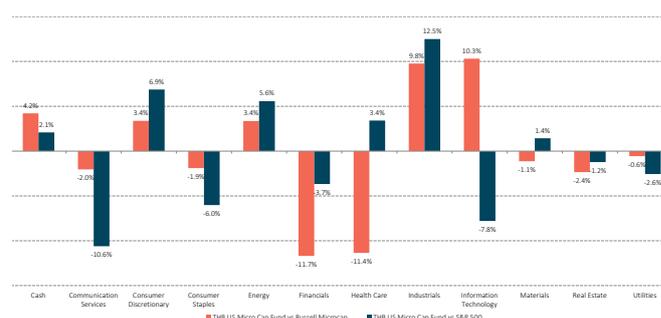
Source: THB Asset Management

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.

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THB
Asset Management
A VICTORY CAPITAL INVESTMENT FRANCHISE

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