

# THB International (ex-USA) Micro Cap Fund – Class W

## Quarterly Report – Q4 2021

### Market commentary

The MSCI World ex USA Small Cap® Index (Index) returned -0.3% (AUD) in Q4 2021.

Real Estate (+5.8%) was the best performing sector, followed by Materials (+4.2%), and Utilities (+2.4%). Consumer Staples (-6.6%) was the worst performing sector, followed by Health Care (-4.4%) and Communication Services (-2.8%).

Israel (+18.6%) was the best performing country, followed by Sweden (+8.4%) and Belgium (+7.8%). Japan (-7.8%), Hong Kong (-4.4%), and Ireland (-3.7%) were the worst performing countries in the Index.

International equities delivered mostly positive returns during the quarter as economic activity exceeded pre-pandemic levels. The Omicron variant news rippled through the markets in November, causing a broad-based sell-off across most indices. Calmness returned in December as investors processed the less virulent, yet more contagious nature of the newest variant. Scars from the early market reaction to Covid-19 are still fresh in investors' minds and episodic, fear-driven pullbacks are to be expected due to the unpredictable nature of the virus. Economic indicators continue to suggest an uneven recovery across most major regions. Larger capitalisation equities led the market this quarter, with the MSCI World ex USA Index returning 3.1% versus 0.4% for the MSCI World ex USA Small Cap Index.

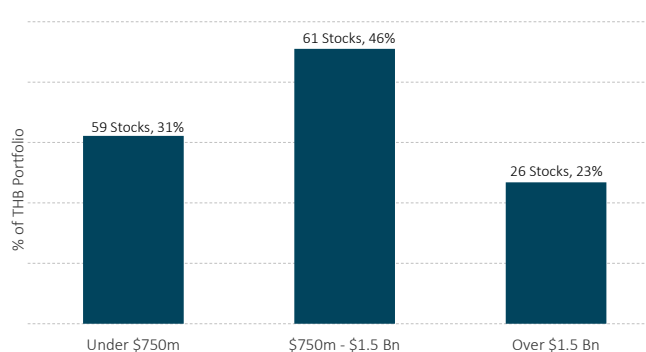
European and Asian regions continue to manage through supply chain disruptions and the Omicron variant. Targeted restrictions to manage the new variant have dampened economic activity in certain regions and industries. Returning to normality has been pushed out across most regions. Fiscal support, both from the EU through its Recovery Fund, as well as from national governments such as Japan, has remained strong. The Glasgow Climate Pact signed in November will require trillions of dollars for climate investments. Japan approved an economic stimulus package with record fiscal spending and allocated \$5B to support advanced semiconductor manufacturing.

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) <sup>2</sup>
Inception date	23 August 2018
Fund size	A\$113 million

Net performance – 31 December 2021			
	Fund <sup>1</sup>	MSCI World ex USA Small Cap <sup>2</sup>	MSCI World ex USA Micro Cap <sup>3</sup>
1 month	(0.3%)	1.7%	1.0%
3 months	(0.9%)	(0.3%)	(0.9%)
1 year	20.4%	18.0%	20.9%
2 years p.a.	15.3%	10.1%	15.1%
3 years p.a.	20.6%	15.0%	16.8%
Since inception	11.0%	8.9%	10.4%

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 returned -0.9% in Q4 2021.

Contributors to the portfolio's performance were positive stock selection in Japan, overallocation to Sweden, and stock selection in France. Detractors from performance included stock selection in the United Kingdom and Netherlands as well as overallocation to Japan.

From a sector perspective, primary contributors to performance mainly came from stock selection in Real Estate, underallocation to Financials, and stock selection in Materials. Underallocation to Real Estate, stock selection in Financials, and underallocation to Materials were primary detractors of performance this quarter.

THB's top five performing stocks (from a contribution standpoint) were Hexatronic Group AB (Sweden, Industrials, +0.9%), Johns Lyng Group Ltd (Australia, Industrials +0.4%), Concentric AB (Sweden, Industrials, +0.3%), Treatt plc (United Kingdom, Materials, +0.3%) and Esker SA (France, Information Technology, +0.3%).

The bottom five performing stocks (from a contribution standpoint) were Xvivo Perfusion AB (Sweden, Health Care, -0.3%), Focusrite PLC (United Kingdom, Consumer Discretionary, -0.3%), SThree plc (United Kingdom, Industrials, -0.2%), Fukui Computer Holdings, Inc. (Japan, Information Technology, -0.2%), and Eckert & Ziegler Stralhen- und Medizintechnik AG (Germany, Health Care -0.2%).

THB portfolio's companies continue to deploy capital with the goal of increasing shareholder value. They announced 13 share repurchase authorisations and 23 acquisitions.

As we head into 2022, we are hopeful that the world may finally be able to move past the Covid-19 pandemic and all the related disruptions. Omicron, while disruptive, may provide the pathway out of the pandemic. 2021 was a transition year as companies and consumers adjusted to the sharp recovery from the pandemic lows and learned to live with the virus. Adaptation is typically the variable which is most difficult to forecast when making future predictions. Taking a current situation and extrapolating out into the future usually misses adaptation, which has been shown to have a profound impact. We are living through that right now as the virus mutates (adapts) into what appears to be a much less lethal version of itself. Businesses and industries adapt as well, and that creates a change in the status quo. Change brings about higher levels of uncertainty and breaks the pattern of existing conditions. While for some this can be a negative, as active managers, THB thrives on it. Inflation, interest rates, style rotation, decarbonisation, geopolitical tensions, and onshoring all serve to amplify inefficiencies within its investment universe. THB will continue to work diligently to efficiently analyse and invest in these opportunities.

## Stocks in focus

Two new additions to the portfolio this quarter are iFAST Corporation and PVA TePla. Both companies are exposed to growing segments of the financial and technology sectors.

### **iFAST Corporation**

iFAST Corporation is a wealth management fintech platform headquartered in Singapore that provides a comprehensive range of investment products and services to financial advisory firms, financial institutions, and banks, as well as retail and high-net-worth investors in Asia. The group offers access to over 13,000 investment products, including funds, bonds, stocks and ETFs. Their platform offers end-to-end services including online access to monitor and manage client portfolios and the back-office infrastructure for

wealth advisors, allowing them to focus on growing their business.

The pandemic has brought about an accelerated pace of digitalisation for the overall wealth management industry, resulting in strong growth for iFAST. The company net inflow of client assets in 2020 has more than tripled to \$3.16 billion, leading to 44% growth in AUA (assets under administration), which is the total net value of investment products held under custody. Approximately 78% of net revenues are recurring and tied to AUA, providing a steady and predictable revenue stream. The company is expanding its geographic presence in Asia, with an ambitious growth target of \$100B in AUA by 2028 from \$14B in 2020.

### **PVA TePla**

PVA TePla manufactures vacuum, plasma and high-temperature systems used in semiconductor, photovoltaic and industrial applications. Based in Germany, the company is the only independent supplier of crystal growing systems for silicon carbide (SiC), a material which is seeing increasing use in semiconductor wafers due to its superior properties. For example, SiC is a key material used in onboard and static charging systems for electric vehicles (EVs) due to its lower heat generation and reduced energy losses, resulting in superior driving range at lower cost.

The group expects to experience a considerable surge in demand resulting from the expansion of SiC wafer capacities driven by growth in the electronics and high-performance electrics industry and demand for EVs. PVA should benefit from the next silicon wafer capex cycle as its key customer, Siltronic, was acquired by Global Wafers, making it the second largest wafer manufacturer in the world. This development is expected to accelerate PVA's global presence and market penetration.

## Portfolio statistics<sup>4</sup>

As at 31 December 2021		
	Fund	Benchmark
Weighted avg market cap	US\$1,194m	US\$3,226m
Price/sales	2.0x	1.3x
Price/Book	3.6x	1.7x
Dividend yield	1.3%	2.1%
Number of securities	146	2,591
Standard deviation	18.0%	16.1%
Sharpe ratio	1.0	0.5
Beta	1.1	
Tracking error	5.9	
Information ratio	1.4	

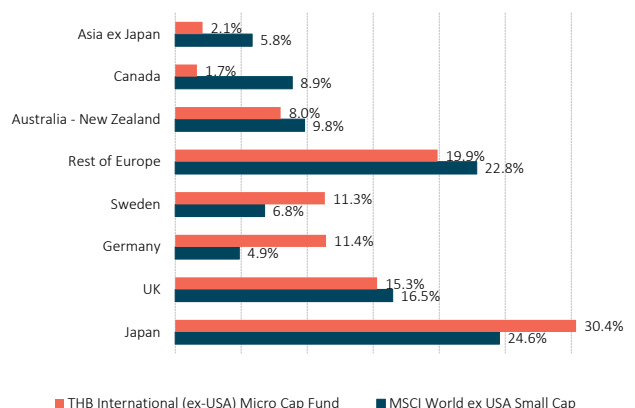
Source: THB Asset Management

## Top 10 holdings<sup>5</sup>

Stock	Sector/Country	Portfolio weight
Focusrite PLC	Consumer Disc/UK	1.6%
Judges Scientific plc	Industrials/UK	1.5%
Kainos Group PLC	Technology/UK	1.5%
Treatt plc	Materials/UK	1.4%
Kardex Holding AG	Industrials/Switzerland	1.4%
El.En. S.p.A.	Health Care/Italy	1.4%
JCU Corporation	Materials/Japan	1.3%
Basler AG	Technology/Germany	1.3%
Johns Lyng Group Ltd	Industrials/Australia	1.3%
NEXUS AG	Health Care/Germany	1.3%

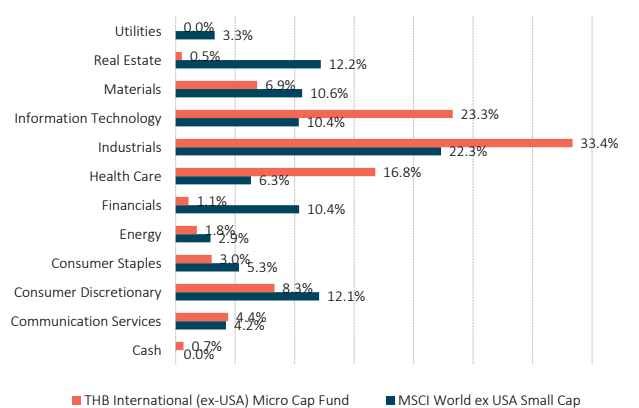
Source: THB Asset Management

## Country allocation<sup>5</sup>



Source: THB Asset Management

## Sector allocation<sup>5</sup>



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 39 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.

**BROOKVINE**

**THB**  
Asset Management  
A VICTORY CAPITAL INVESTMENT FRANCHISE

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