

# THB US Micro Cap Fund

## Monthly Report – February 2022

### Market commentary

The Russell Microcap® Index returned -1.9% (AUD) in February 2022.

Energy (+15.9%) was the best performing sector, followed by Materials (+10.5%) and Consumer Staples (+4.7%). Information Technology (-1.9%) was the worst performing sector followed by Health Care (-1.3%) and Financials (-0.9%).

US equity markets were mixed in February with the Russell Small and Micro Cap indices outperforming the S&P 500. The relaxation of Covid restrictions and positive economic data were overshadowed by the escalating geopolitical tensions in Europe culminating with the Russian invasion of Ukraine on February 23.

The invasion-induced spike in energy complex prices were a key focus for investors. Already on the rise prior to the escalating tensions between Russia and Ukraine, Brent crude was up 13% m/m in February and has increased approximately 50% since December 2021. The US consumer continued to show resiliency despite inflationary pressures. Retail sales were up 3.8% in January topping all expectations with eight of the 13 retail categories rising in the month. Buyers also depleted already tight home inventories to a record low. Existing home sales rose to a one-year high driven by gains across all four major regions. At the current pace, it will take 1.6 months to sell all homes on the market. The February employment report highlighted the increasingly tight labour market with unemployment rate falling to 3.8%. The strong job market is supportive of continued consumer spending.

The subsequent sanctions against Russia, prohibiting a wide range of financial transactions and exports were further amplified by a large number of global companies halting sales and other operations there. As global supply chains are again reconfigured, THB believes smaller domestically focused companies would be long-term beneficiaries from the new global paradigm.

### Portfolio commentary

The THB US Micro Cap Fund returned -3.5% in AUD (net of fees) in February 2022. The portfolio saw positive contribution from stock selection in Health Care (+1.6%), overallocation to Energy (+0.6%), and stock selection in Consumer Discretionary (+0.6%). Negative contribution came mainly from stock selection in Industrials (-1.2%), overallocation to Industrials (-1.2%) and stock selection in Information Technology (-0.8%).

THB's top five performing stocks (from a contribution standpoint) were RPC, Inc. (Energy, +1.2%), Lantheus Holdings Inc. (Health Care, +0.8%), Renewable Energy Group, Inc. (Energy, +0.5%), Ruth's Hospitality Group, Inc. (Consumer Discretionary, +0.3%) and Clean Energy Fuels Corp. (Energy, +0.2%).

The bottom five performing stocks (from a contribution standpoint) were Grid Dynamics Holdings, Inc. Class A (Information Technology, -1.0%), Transcat, Inc. (Industrials, -0.6%), Graham Corporation (Industrials, -0.4%), Ichor Holdings, Ltd. (Information Technology, -0.3%) and BioLife Solutions, Inc. (Industrials, -0.3%).

During the month, THB's portfolio companies announced four acquisitions and four stock repurchases.

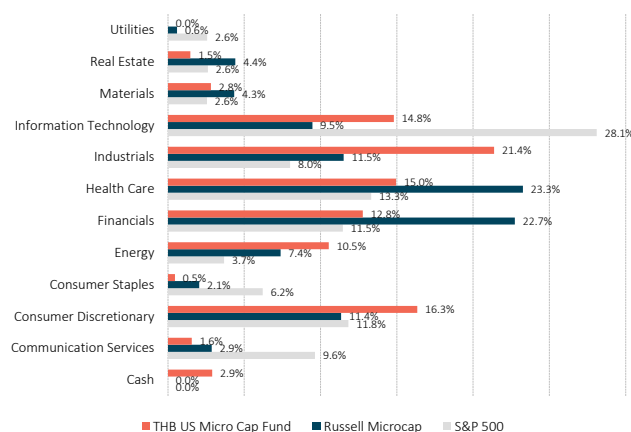
Fund details	
Benchmark	Russell Microcap® Index <sup>3</sup>
Inception date	5 September 2014
Fund size	A\$81.9 million

Performance <sup>1</sup> – 28 February 2022			
	Fund <sup>2</sup>	Russell Microcap®	Difference
1 month	(3.5%)	(1.9%)	(1.6%)
3 months	(8.3%)	(10.5%)	2.2%
1 year	(5.5%)	(4.2%)	(1.4%)
2 years p.a.	17.5%	14.7%	2.8%
3 years p.a.	9.8%	10.7%	(0.8%)
5 years p.a.	10.7%	11.0%	(0.3%)
Since inception p.a. <sup>2</sup>	12.3%	12.7%	(0.4%)

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. 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 allocation<sup>4</sup>



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 statistics<sup>5</sup>

As at 28 February 2022		
	Fund	Russell Microcap®
Weighted avg market cap	US\$931m	US778m
Price/sales	1.2x	1.4x
Price/book	1.9x	1.8x
Dividend yield	0.6%	1.1%
Number of securities	94	1,771
Standard deviation	20.8%	21.1%
Sharpe ratio	0.5	
Beta	0.9	
Tracking error	6.3	
Information ratio	0.1	

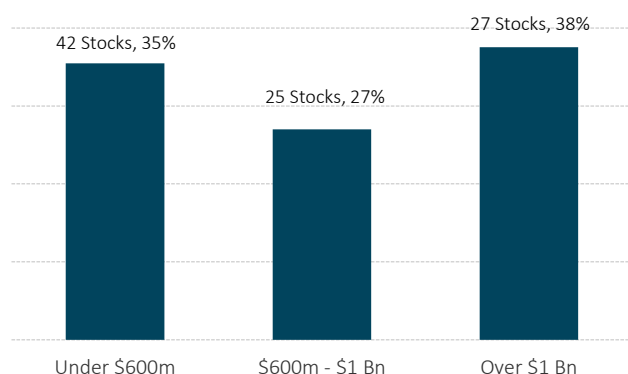
5. Portfolio statistics are reported in USD. Source: THB Asset Management

## Top 10 holdings

Stock	Sector	Portfolio weight
RPC Inc	Energy	3.6%
First Busey Corporation	Financials	3.4%
Transcat Inc	Industrials	3.0%
Movado Group, Inc	Consumer Disc	2.4%
ePlus Inc	Technology	2.2%
Old Second Bancorp Inc	Financials	2.0%
TETRA Technologies Inc	Energy	2.0%
Greenbrier Companies Inc	Industrials	2.0%
Heritage Financial Corporation	Financials	1.8%
LeMaitre Vascular Inc	Health Care	1.8%

Source: THB Asset Management

## Companies by market capitalisation



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 39 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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Asset Management  
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