

THB US Micro Cap Fund

Monthly Report – May 2022

Market commentary

The Russell Microcap® Index returned -1.3% in May 2022. Utilities (+10.7%) was the best performing sector followed by Energy (+10.7%) and Financials (+1.9%). Health Care (-6.3%) performed the worst, followed by Real Estate (-6.1%) and Consumer Discretionary (-2.5%).

US equities were little changed in May. The Fed-led monetary policy tightening narrative continued to dominate the headlines and inflation concerns remained elevated. As China Covid trends continued to improve, Shanghai reopened and a number of companies noted some easing of supply chain pressures expected to ease inflationary pressures. Companies like Visa and Delta also lifted optimism highlighting momentum behind economic normalisation theme.

The consumer continues to remain the brighter spot in the economic data releases. May's consumer confidence reading came in at 106.4, better than consensus. Earnings from retailers provided some clarity into the consumer backdrop. Retailers saw a split in shopping patterns of more- and less-affluent Americans. Macy's CEO Jeff Gennette said that at households earning more than \$75,000 yearly, the customer was "very healthy, and spend levels were quite strong." Nordstrom also challenged the gloomy outlooks, issuing a robust increase to its forecast. Consumers may be more selective where they spend their dollars on hard goods but pent-up demand in travel is pushing higher spend in eating-out and services. The global travel-related company, Booking Holdings Inc. has raised the prospect of a record summer season and has indicated that Western Europe and North America are leading the summer travel rebound, with gross bookings 30% higher for the regions than at this time in 2019.

Portfolio commentary

The THB US Micro Cap Fund returned -1.1% in AUD (net of fees) in May 2022.

The portfolio saw positive contribution from stock selection in Health Care (+1.1%) as well as underallocation to Communication Services (+0.8%), and Real Estate (+0.6%). Negative contribution came mainly from stock selection in Communication Services (-1.1%), Real Estate (-0.8%), and Industrials (-0.6%).

THB's top five performing stocks (from a contribution standpoint) were TETRA Technologies, Inc. (Energy, +1.0%); Grid Dynamics Holdings, Inc. Class A (Information Technology, +0.5%); Hyster-Yale Materials Handling Inc. Class A (Industrials, +0.3%); Northwest Pipe Company (Industrials, +0.2%); and Old Second Bancorp, Inc. (Financials, +0.2%).

The bottom five performing stocks (from a contribution standpoint) were Transcat, Inc. (Industrials, -0.4%); Gladstone Land Corp. (Real Estate, -0.4%); EverQuote, Inc. Class A (Communication Services, -0.4%); RPC, Inc. (Energy, -0.3%); and Twin Disc, Incorporated (Industrials, -0.3%).

During the month, THB's portfolio companies announced seven acquisitions and three stock purchases.

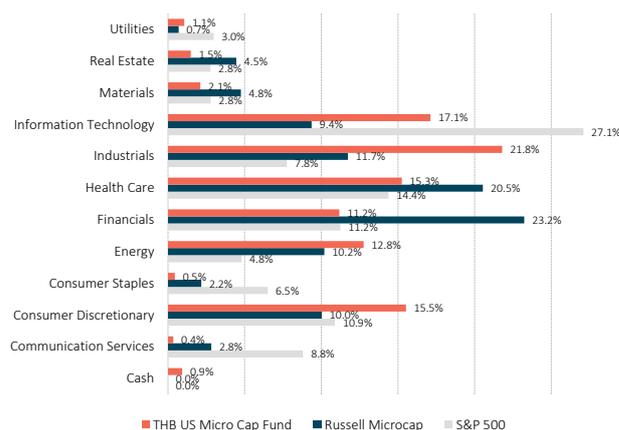
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$74.7 million

Performance ¹ – 31 May 2022			
	Fund ²	Russell Microcap®	Difference
1 month	(1.1%)	(1.3%)	0.2%
3 months	(7.2%)	(8.4%)	1.3%
1 year	(15.3%)	(16.2%)	0.9%
2 years p.a.	17.9%	14.8%	3.1%
3 years p.a.	9.2%	9.4%	(0.2%)
5 years p.a.	8.3%	8.5%	(0.2%)
Since inception p.a. ²	10.8%	11.0%	(0.2%)

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. 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 statistics⁵

As at 31 May 2022		
	Fund	Russell Microcap [®]
Weighted avg market cap	US\$849m	US\$838m
Price/sales	1.0x	1.3x
Price/book	1.7x	1.7x
Dividend yield	0.8%	1.2%
Number of securities	96	1,757
Standard deviation	20.8%	21.2%
Sharpe ratio	0.5	0.4
Beta	0.9	
Tracking error	6.2	
Information ratio	0.1	

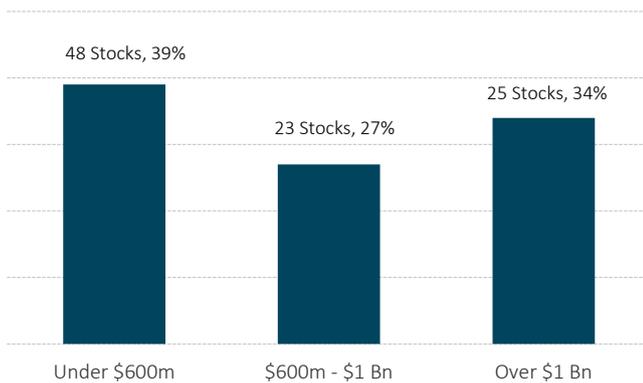
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
TETRA Technologies Inc	Energy	3.5%
First Busey Corporation	Financials	3.2%
RPC Inc	Energy	3.0%
ePlus Inc	Technology	3.0%
Transcat Inc	Industrials	2.7%
Movado Group Inc	Consumer Disc	2.3%
Old Second Bancorp Inc	Financials	2.3%
Grid Dynamics Holdings Inc	Technology	2.1%
Greenbrier Companies Inc	Industrials	2.1%
Heritage Financial Corporation	Financials	2.1%

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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