

THB US Micro Cap Fund

Monthly Report – July 2022

Market commentary

The Russell Microcap® Index returned 8.4% in July 2022. Energy (+15.6%) was the best performing sector followed by Information Technology (+13.5%) and Industrials (+12.1%). Consumer Staples (+2.6%) performed the worst, followed by Communication Services (+2.7%) and Utilities (+4.4%).

US equities rallied sharply in July mostly reversing the pullback experienced in the prior month.

A number of macroeconomic updates continued to highlight flattening inflation pressure. Cleveland Fed’s inflation nowcast estimate of July CPI tracking to 0.27%, or 3.24% annualised, which would be the lowest since January 2021 and well below the 9-12% range throughout 2022. Falling commodity prices such as wheat and corn are likely to slow consumer food price increases, while the return of grain shipments from the Black Sea may further moderate global grain prices.

There were a number of positive read-throughs from results out of the banking sector, with JPMorgan CEO Jamie Dimon noting at the Q2 earnings call that the consumer is in great shape and that “even if we go into a recession, they’re entering that recession with less leverage in far better shape than they did in 2008 and 2009 and far better shape than they did even in 2020. And jobs are plentiful.” In addition, Amazon noted it has not seen any macro/inflation impact on overall consumer spending. Commentary from credit card names Visa and MasterCard echoed a similar theme.

Portfolio commentary

The THB US Micro Cap Fund returned 7.4% in AUD (net of fees) in July 2022.

The portfolio saw positive contribution from stock selection in Consumer Staples (+0.8%) and Health Care (+0.6%) as well as underallocation to Financials (+0.5%). Negative contribution came mainly from stock selection in Industrials (-0.8%), overallocation to Industrials (-0.5%), and underallocation to Consumer Staples (-0.4%).

THB’s top five performing stocks (from a contribution standpoint) were Bassett Furniture Industries, Inc. (Consumer Discretionary, +0.6%); Clean Energy Fuels Corp. (Energy, +0.5%); NAPCO Security Technologies, Inc. (Information Technology, +0.5%); RPC, Inc. (Energy, +0.4%); and BioLife Solutions, Inc. (Health Care, +0.4%).

The bottom five performing stocks (from a contribution standpoint) were Profire Energy, Inc. (Energy, -0.3%); Greenbrier Companies, Inc. (Industrials, -0.3%); Holley, Inc. (Consumer Discretionary, -0.2%); Latham Group, Inc. (Consumer Discretionary, -0.2%); and OptimizeRx Corporation (Health Care, -0.2%).

During the month, THB’s portfolio companies announced five acquisitions.

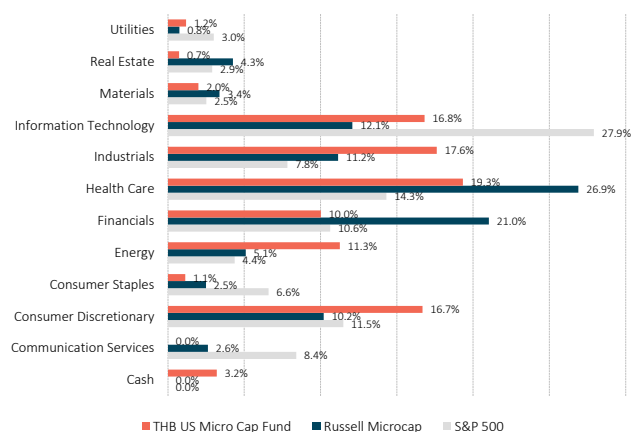
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$71.9 million

Performance ¹ – 31 July 2022			
	Fund ²	Russell Microcap®	Difference
1 month	7.4%	8.4%	(1.0%)
3 months	0.7%	1.3%	(0.6%)
1 year	(15.5%)	(15.1%)	(0.5%)
2 years p.a.	18.6%	16.7%	1.9%
3 years p.a.	7.9%	8.5%	(0.6%)
5 years p.a.	9.6%	9.6%	(0.0%)
Since inception p.a. ²	10.8%	11.1%	(0.3%)

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 July 2022		
	Fund	Russell Microcap®
Weighted avg market cap	US\$947m	US\$620m
Price/sales	1.2x	1.3x
Price/book	1.8x	1.7x
Dividend yield	0.8%	1.1%
Number of securities	94	1,788
Standard deviation	21.1%	21.5%
Sharpe ratio	0.4	0.4
Beta	0.9	
Tracking error	6.2	
Information ratio	0.1	

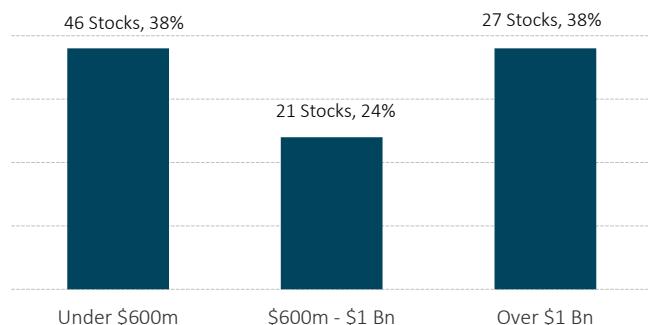
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
TETRA Technologies Inc	Energy	2.9%
Transcat Inc	Industrials	2.8%
RPC Inc	Energy	2.7%
ePlus Inc	Technology	2.6%
First Busey Corporation	Financials	2.5%
Movado Group Inc	Consumer Disc	2.5%
Grid Dynamics Holdings Inc	Technology	2.4%
LeMaitre Vascular Inc	Health Care	2.3%
NAPCO Security Technologies	Technology	2.3%
Bassett Furniture Industries	Consumer Disc	2.2%

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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