

THB US Micro Cap Fund

Monthly Report – August 2022

Market commentary

The Russell Microcap® Index (Index) returned 1.9% (AUD) in August 2022. Health Care (+6.9%) was the best performing sector followed by Energy (+5.3%) and Utilities (+4.8%). Real Estate (-6.4%) performed the worst, followed by Industrials (-4.5%) and Materials (-3.9%).

US equities were broadly lower in August as strong gains from the prior month consolidated.

July CPI readings highlighted some deceleration in inflation during the month. While overall levels remain high, the current reading may highlight that some elements of overall inflation may be peaking. However, moderating inflation data did not soften the tone of Jerome Powell's speech in Jackson Hole given on August 26th. Equity markets moved sharply lower after his speech in which he stated "we must keep at it until the job is done" in reference to taming inflation.

US consumers remain a pillar of the economy showing spending resilience despite the elevated levels of inflation. During the month, retail sales rose 0.7% beating most expectations. Walmart's earnings report featured strong topline and a better-than-expected forecast for the balance of the year. Their report gives good insights into the US consumer and highlighted resilient spending patterns.

Portfolio commentary

The THB US Micro Cap Fund returned -1.4% in AUD (net of fees) in August 2022.

The portfolio saw positive contribution from stock selection in Industrials (+1.2%), overallocation to Industrials (+0.5%) and underallocation to Health Care (+0.5%). Negative contribution came mainly from stock selection in Health Care (-3.8%) and Information Technology (-0.5%) as well as overallocation to Consumer Discretionary (-0.4%).

THB's top five performing stocks (from a contribution standpoint) were Transcat, Inc. (Industrials, +0.5%); Allied Motion Technologies, Inc. (Industrials, +0.4%); NAPCO Security Technologies, Inc. (Information Technology, +0.3%); Preformed Line Products Company (Industrials, +0.3%); and BioLife Solutions, Inc. (Health Care, +0.3%).

The bottom five performing stocks (from a contribution standpoint) were ePlus, Inc. (Information Technology, -0.4%); Perficient, Inc. (Information Technology, -0.4%); U.S. Physical Therapy, Inc. (Health Care, -0.3%); Bassett Furniture Industries, Inc. (Consumer Discretionary, -0.3%); and Vericel Corporation (Health Care, -0.3%).

During the month, THB's portfolio companies announced nine acquisitions and one share repurchase authorisation.

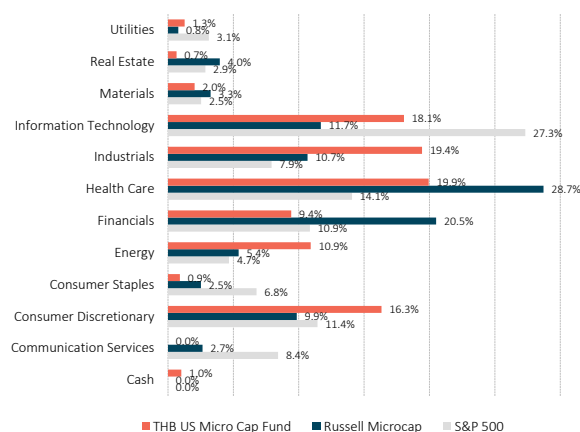
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$70.6 million

Performance ¹ – 31 August 2022			
	Fund ²	Russell Microcap®	Difference
1 month	(1.4%)	1.9%	(3.3%)
3 months	0.4%	4.6%	(4.2%)
1 year	(18.7%)	(16.9%)	(1.8%)
2 years p.a.	15.2%	16.2%	(1.0%)
3 years p.a.	9.3%	10.7%	(1.4%)
5 years p.a.	9.6%	10.0%	(0.4%)
Since inception p.a. ²	10.5%	11.2%	(0.7%)

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 August 2022		
	Fund	Russell Microcap®
Weighted avg market cap	US\$860m	US\$652m
Price/sales	1.1x	1.3x
Price/book	1.8x	1.7x
Dividend yield	0.8%	1.1%
Number of securities	93	1,777
Standard deviation	21.0%	21.4%
Sharpe ratio	0.4	0.4
Beta	0.9	
Tracking error	6.2	
Information ratio	0.04	

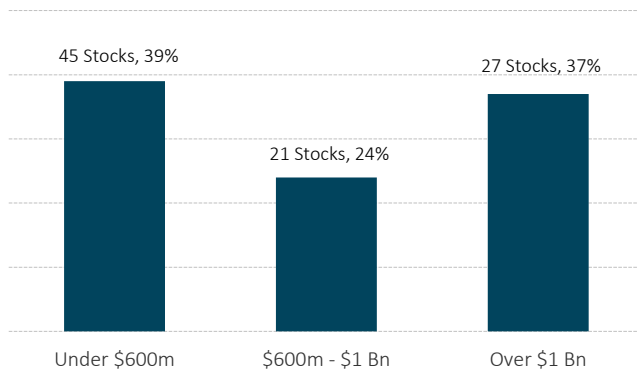
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
Transcat Inc	Industrials	3.5%
NAPCO Security Technologies	Technology	2.7%
TETRA Technologies Inc	Energy	2.7%
Grid Dynamics Holdings Inc	Technology	2.6%
RPC Inc	Energy	2.5%
Movado Group Inc	Consumer Disc	2.3%
LeMaitre Vascular Inc	Health Care	2.3%
ePlus Inc	Technology	2.3%
First Busey Corporation	Financials	2.2%
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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