

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

Quarterly Report – Q2 2022

Market commentary

The MSCI World ex USA Small Cap® Index returned -10.4% (AUD) in Q2. Energy (-9.2%) was the best performing sector, followed by Utilities (-9.4%) and Consumer Staples (-10.4%). Materials (-24.6%) was the worst performing sector, followed by Information Technology (-21.9%) and Real Estate (-20.1%).

Hong Kong (-3.7%) was the best performing country, followed by Singapore (-7.9%) and Ireland (-8.4%). Sweden (-29.5%), Australia (-25.5%) and Norway (-24.6%) were the worst performing countries in the Index.

International Equities were broadly lower this quarter and delivered volatile performance as investors continued to digest inflation, supply chain issues, recessionary fears and monetary policy moves around the world.

Most central banks are on a tightening course, attempting to control inflation by raising interest rates. At its June meeting the Fed announced a 75 bps rate hike and made it clear to the market that they may increase the tempo and scope of future rate hikes. Both the Swiss National Bank and the Bank of England announced policy-rate increases as well. The European Central Bank is outlining a less aggressive route, scheduling a small rate hike in July which will bring the rate to zero. The Bank of Japan, however, reiterated its commitment to avoid deflation and was the only major central bank still embarking on a significant asset purchase program. The spectre on higher interest rates continued to pressure high multiple equities and growth underperformed across all capitalisation ranges.

The strength of the European consumer is fueling optimism that a recession could be avoided, emboldening the European Central Bank to cement plans for the first interest-rate increase in more than a decade. There are several factors that could help manage a softer landing, that is, the consumer remains resilient, while Euro/dollar parity could foster higher export demand and high inflation may be showing early signs of moderation.

Unlike the Fed, European policymakers are not trying to cool down an overheating economy. In Europe, consumption hasn't even recovered to its pre-pandemic levels. In ordinary times, Europeans save around 12 percent of their income. But as families stayed at home and furlough schemes supported income during the pandemic, this savings rate increased sharply to almost 19% in 2020 and 17% in 2021. The IMF estimates that households in the euro area saved nearly 1 trillion euros more in those two years than they would have done without the pandemic. Additionally, the appreciation of the dollar has turned Europe into a more attractive destination for American travel. According to Allianz, travel to Europe is expected to be up 600 percent over last summer.

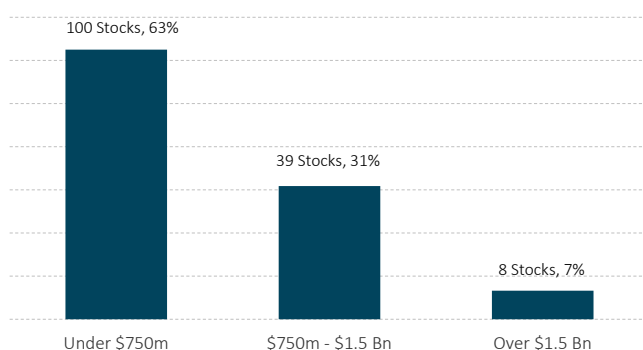
Commodity prices have begun to moderate from peak levels as supply catches up with demand surge experienced across the various complexes. Falling prices are likely a result of the confluence of normalising demand patterns, less urgent restocking, and improving supply chains. Broad based declines in commodities will work through the various inflation readings in the coming quarters.

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) ²
Inception date	23 August 2018
Fund size	A\$81.6 million

Net performance – 30 June 2022			
	Fund ¹	MSCI World ex USA Small Cap ²	MSCI World ex USA Micro Cap ³
1 month	(6.8%)	(7.4%)	(5.8%)
3 months	(13.8%)	(10.4%)	(10.0%)
1 year	(20.3%)	(16.0%)	(16.1%)
2 years p.a.	1.6%	4.7%	8.9%
3 years p.a.	2.0%	2.7%	5.6%
Since inception	0.5%	1.7%	3.3%

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. 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 -13.8% (net of fees) in Q2.

Contributors to the portfolio's performance were stock selection in Sweden, underallocation to Canada, and stock selection in Norway. Detractors from performance included stock selection in Japan, Canada, and Singapore.

From a sector perspective, primary contributors to performance mainly came from underallocation to Materials and Financials as well as stock selection in Information Technology. Stock selection in Materials, Consumer Discretionary, and Financials were primary detractors to performance this quarter.

THB's top five performing stocks (from a contribution standpoint) were Hexatronic Group AB (Sweden, Industrials, +0.10%); U-Blox Holding AG (Switzerland, Information Technology, +0.09%); Infomedia Ltd. (Australia, Information Technology, +0.08%); Magseis Fairfield ASA (Norway, Energy, +0.07%), and Shoei Co. Ltd. (Japan, Consumer Discretionary, +0.05%).

The bottom five performing stocks (from a contribution standpoint) were Johns Lyng Group Ltd. (Australia, Industrials, -0.63%), Treatt plc (United Kingdom, -0.57%), Karora Resources, Inc. (Australia, Materials, -0.50%), Secunet Security Networks AG (Germany, Information Technology, -0.50%), and PWR Holdings, Ltd. (Australia, Consumer Discretionary, -0.50%).

THB's companies continue to deploy capital with the goal of increasing shareholder value. They announced 13 share repurchase authorisations and 32 acquisitions in Q2.

THB increased its position size in **CropEnergies** during the quarter. CropEnergies is the third largest producer of ethanol in Europe. The biorefinery concept that CropEnergies fulfills has huge advantages with the integrated productions of food, feed and biofuels. From one tonne of grain, Cropenergies produces 300 kilograms of ethanol, 400 kilograms of protein-rich food and animal feed products and 300 kilograms of biogenic carbon dioxide. Biofuels play a key role in reducing the GHG footprint of fuels and gives a significant contribution to greenhouse gas emissions reduction targets in Europe resulting of multiple short and long term demand drivers for the company. The European Parliament and the Council are currently discussing a renewed increase in the targets for renewable energies. The company is benefitting from increased prices of ethanol and blending in Europe driven by the general price increases in commodity and energy markets, as well as strong end-market demand.

The uncertainty which took hold in the market and economy this quarter can cause volatility, but also presents predictable patterns and opportunities. As fear spreads, worst case scenarios morph into the base case and irrational behavior ensues. This has happened numerous times in the past and will continue to happen in the future. THB believes these periods provide a wealth of alpha opportunities as the level of mispricing within the universe increases.

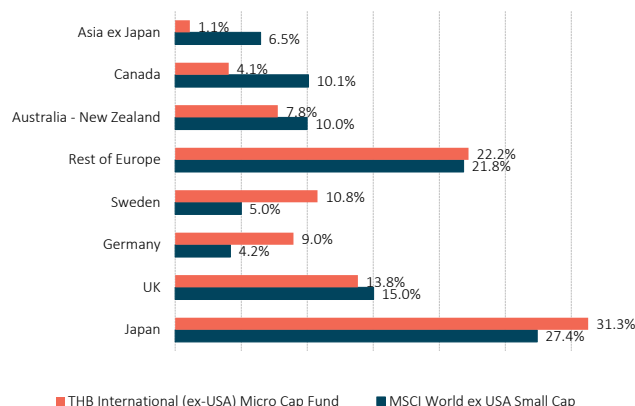
THB believes valuations for International Small Cap stocks are attractive on a relative and absolute basis. Currently, 65% of MSCI World Ex USA Small Cap companies are down greater than 15% in the trailing one-year period. Such broad pullbacks are rare occurrences, having only occurred six times in the last 20 years. The breadth is indicative of indiscriminate selling and mispricing. THB believes environments such as this are filled with opportunities for active managers. As the market recalibrates to a changing economic, monetary and geopolitical regime, dislocation is taking place that should provide great long term investment opportunities.

Portfolio statistics⁴

As at 30 June 2022		
	Fund	Benchmark
Weighted avg market cap	US\$757m	US\$2,367m
Price/sales	1.4x	1.0x
Price/Book	2.5x	1.3x
Dividend yield	1.8%	3.0%
Number of securities	147	2,590
Standard deviation	19.1%	16.7%
Sharpe ratio	0.5	
Beta	1.1	
Tracking error	6.4	
Information ratio	0.9	

Source: THB Asset Management

Country allocation⁵



Source: THB Asset Management

4. Portfolio statistics are reported in USD.

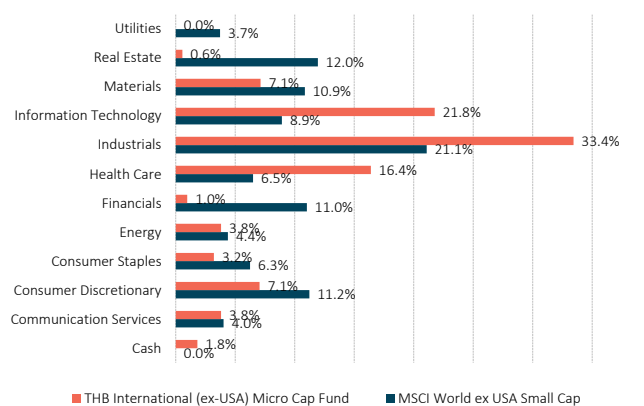
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Top 10 holdings⁵

Stock	Sector/Country	Weight
Judges Scientific plc	Industrials/UK	1.7%
u-blox Holding AG	Technology/Switzerland	1.6%
El.En. S.p.A.	Health Care/Italy	1.5%
Shoei Co Ltd	Consumer Disc/Japan	1.4%
Johns Lyng Group Ltd	Industrials/Australia	1.3%
Kainos Group PLC	Technology/UK	1.3%
NEXUS AG	Health Care/Germany	1.2%
SeSa S.p.A.	Technology/Italy	1.2%
Focusrite PLC	Consumer Disc/UK	1.2%
Kardex Holding AG	Industrials/Switzerland	1.1%

Source: THB Asset Management

Sector allocation⁵



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 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.

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Asset Management
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For more information, contact Brookvine Client Service on +61 2 9328 6445 or clientservice@brookvine.com.au

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