

THB US Micro Cap Fund

Monthly Report – January 2023

Market commentary

The Russell Microcap® Index (Index) returned 5.7% (AUD) in January 2023. Communication Services (+18.29%) was the best performing sector followed by Consumer Discretionary (+16.61%) and Industrials (+14.27%). Financials (+3.49%) performed the worst, followed by Utilities (+4.79%) and Energy (+7.00%).

US equities delivered strong performance in January as all major indices were positive. The broad-based rally was fueled by rising investor optimism for a soft landing.

The month's data releases firmed expectations for a pause in the Federal Reserve's rate hikes in the coming months. The overall consumer price index fell 0.1% in December from the prior month, with cheaper energy costs fueling the first decline in 2 1/2 years, according to a Labor Department report in January. US mortgage rates fell to a four-month low, the contract rate on a 30-year fixed mortgage decreased 19 basis points to 6.23% in the week ended Jan. 13, 2023. The employment market remained strong with job gains across most sectors in January. Leisure and hospitality led the job growth adding 128,000 jobs in January, up from 2022's average of 89,000 per month. The continued strength in the service sector reflects, in part, a catch-up with demand but also indicates that the consumer remains resilient.

Portfolio commentary

The THB US Micro Cap Fund returned 6.6% in AUD (net of fees) in January 2023.

The portfolio saw positive contribution from underallocation to Financials (+0.98%) as well as overallocation to Consumer Discretionary (+0.44%) and Industrials (+0.26%). Negative contribution came mainly from stock selection in Financials (-0.49%), underallocation to Communication Services (-0.22%), and stock selection in Industrials (-0.17%).

THB's top five performing stocks (from a contribution standpoint) were Transcat Inc., (Industrials, +0.6%); Ichor Holdings, Ltd. (Information Technology, +0.5%); Tetra Technologies, Inc. (Energy, +0.4%); Biolife Solutions, Inc. (Health Care, +0.4%); and Par Technology Corp. (Information Technology, +0.4%).

The bottom five performing stocks (from a contribution standpoint) were Catalyst Pharmaceuticals, Inc. (Health Care, -0.2%); Greenbrier Companies, Inc. (Industrials, -0.1%); Heritage Financial Corp. (Financials, -0.1%); UFP Technologies, Inc. (Health Care, -0.1%); and Select Energy Services, Inc. (Energy, -0.1%).

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

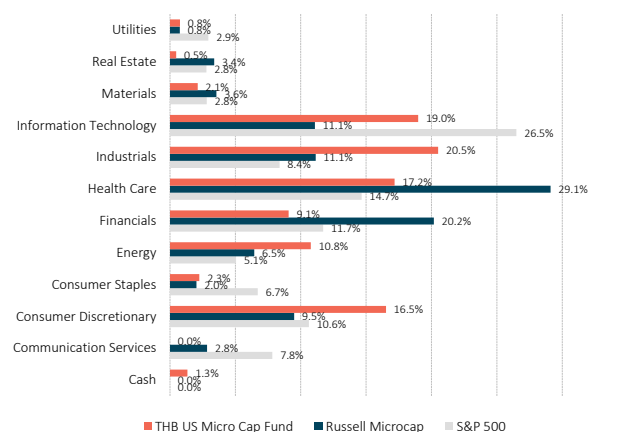
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$85 million

Performance ¹ – 31 January 2023			
	Fund ²	Russell Microcap®	Difference
1 month	6.6%	5.7%	0.9%
3 months	(3.1%)	(4.6%)	1.5%
1 year	(5.3%)	(5.0%)	(0.3%)
2 years p.a.	0.6%	(1.2%)	1.8%
3 years p.a.	8.3%	7.2%	1.0%
5 years p.a.	8.5%	8.1%	0.4%
Since inception p.a. ²	10.6%	10.8%	(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 January 2023		
	Fund	Russell Microcap®
Weighted avg market cap	US\$895m	US\$779m
Price/sales	1.1x	1.3x
Price/book	2.0x	1.7x
Dividend yield	0.8%	1.1%
Number of securities	96	1,740
Standard deviation	21.6%	21.7%
Sharpe ratio	0.4	0.4
Beta	1.0	
Tracking error	6.2	
Information ratio	0.2	

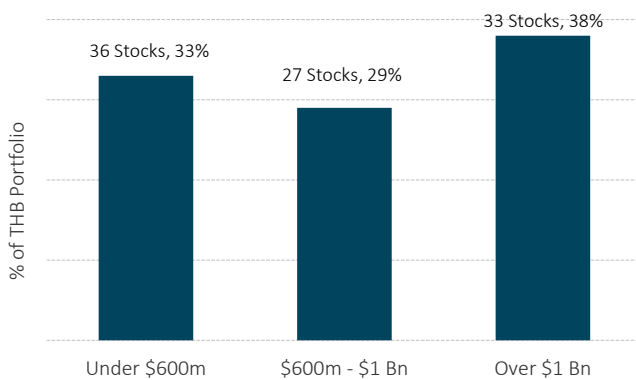
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
Transcat Inc	Industrials	3.3%
RPC Inc	Energy	2.9%
TETRA Technologies Inc	Energy	2.7%
ePlus Inc	Technology	2.2%
Ichor Holdings Ltd	Technology	2.0%
NAPCO Security Technologies	Technology	2.0%
Immersion Corporation	Technology	1.9%
UFP Technologies Inc	Health Care	1.8%
LeMaitre Vascular Inc	Health Care	1.8%
Allied Motion Technologies Inc	Industrials	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 40 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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