

THB US Micro Cap Fund

Monthly Report – February 2023

Market commentary

The Russell Microcap® Index returned 1.5% in AUD in February 2023. Energy (+3.93%) was the best performing sector followed by Financials (+0.09%) and Utilities (-1.45%). Consumer Staples (-8.74%) performed the worst, followed by Real Estate (-7.7%) and Communication Services (-7.42%).

After a strong rally in January, US stocks were modestly down in the month of February. The month was characterised by a warmer than expected winter as well as positive developments for US technology manufacturers. Due to the warm winter, energy and utilities markets were challenged. Energy commodities like natural gas had fallen by 27% and coal by 51% since the beginning of the year.

There were also positive developments for the American tech industry, particularly around bans against exporting semiconductor technology to China and stimulus incentives related to the CHIPS Act. During the month, large hardware firms such as Apple have said that they will divest production from China as pressures from the US government increase. As a result, China's chip imports have dropped 25% in the first months of the year and is creating optimism around US Chip manufacturing. The initial \$39B funding round of the CHIPS Act also began last month and has thus far attracted ~\$200B in commitments from companies such as Micron, Qualcomm, Intel, as well as Taiwan's TSMC, and South Korea's SKC.

Portfolio commentary

The THB US Micro Cap Fund returned 4.6% in AUD (net of fees) in February 2023.

The portfolio saw positive contribution from stock selection in Health Care (+1.71%), overallocation to Industrials (+0.69%), and stock selection in Industrials (+0.64%). Negative contribution came mainly from stock selection in Energy (-0.63%), underallocation to Financials (-0.50%), and underallocation to Health Care (-0.31%).

THB's top five performing stocks (from a contribution standpoint) were Expro Group Holdings N.V. (Energy, +0.3%); Transcat, Inc. (Industrials, +0.3%); Lantheus Holdings, Inc. (Health Care, +0.2%); Luna Innovations, Inc. (Information Technology, +0.2%); and Park Aerospace Corp. (Industrials, +0.2%).

The bottom five performing stocks (from a contribution standpoint) were RPC, Inc. (Energy, -0.3%); TETRA Technologies, Inc. (Energy, -0.3%); Overstock.com, Inc. (Consumer Discretionary, -0.2%); Latham Group, Inc. (Consumer Discretionary, -0.2%); and Atrion Corporation (Health Care, -0.2%).

During the month, THB's portfolio companies announced two share repurchase authorisations and seven acquisitions.

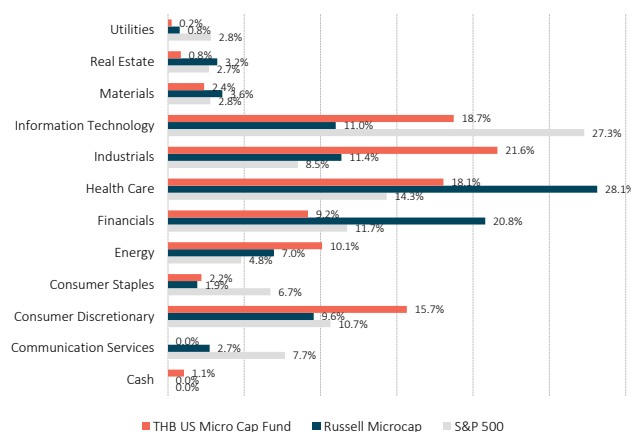
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$87 million

Performance ¹ – 28 February 2023			
	Fund ²	Russell Microcap®	Difference
1 month	4.6%	1.5%	3.1%
3 months	4.3%	1.4%	2.9%
1 year	2.6%	(1.7%)	4.3%
2 years p.a.	(1.6%)	(2.9%)	1.4%
3 years p.a.	12.3%	9.0%	3.4%
5 years p.a.	9.5%	8.3%	1.2%
Since inception p.a. ²	11.1%	10.9%	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 28 February 2023		
	Fund	Russell Microcap®
Weighted avg market cap	US\$918m	US\$801m
Price/sales	1.1x	1.2x
Price/book	1.9x	1.7x
Dividend yield	0.8%	1.2%
Number of securities	100	1,727
Standard deviation	21.5%	21.6%
Sharpe ratio	0.4	0.4
Beta	1.0	
Tracking error	6.2	
Information ratio	0.2	

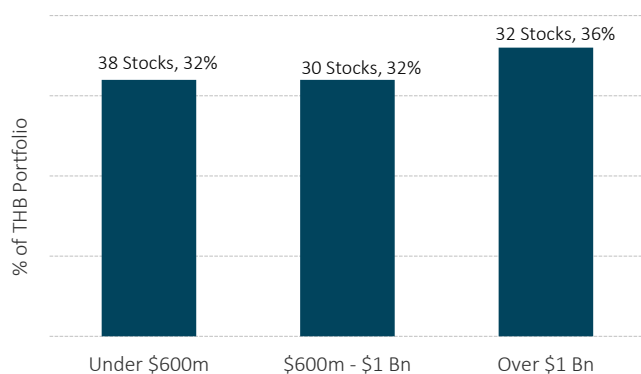
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
Transcat Inc	Industrials	3.6%
RPC Inc	Energy	2.5%
TETRA Technologies Inc	Energy	2.4%
ePlus Inc	Technology	2.4%
Ichor Holdings Ltd	Technology	2.0%
Immersion Corporation	Technology	2.0%
LeMaitre Vascular Inc	Health Care	1.9%
UFP Technologies Inc	Health Care	1.9%
Allied Motion Technologies Inc	Industrials	1.9%
Luna Innovations Incorporated	Technology	1.9%

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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THB
Asset Management
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