

THB US Micro Cap Fund

Monthly Report – July 2023

Market commentary

The Russell Microcap® Index returned 4.1% (AUD) in July 2023. Financials (+11.17%) was the best performing sector followed by Energy (+10.81%) and Consumer Discretionary (+10.39%). Health Care (+0.57%) performed the worst, followed by Utilities (+1.39%) and Information Technology (+1.81%).

In July, the financial markets experienced notable gains across U.S. equities consolidating the strong performance in June. Small Caps notched another month of outperformance vs the Nasdaq and S&P 500. This month served as a testament to the U.S.'s economic resilience, characterised by declining inflation, improving consumer confidence, and a boost in new home demand.

Inflation, which stood at 5.4% a year ago, decreased to 3.4% in July. This drop aligned with a rise in consumer sentiment; the University of Michigan Preliminary Consumer Sentiment Index climbed 8.2 points to 72.6, marking its highest level since 2021. On the employment front, the U.S. added an impressive 324K new jobs.

A significant contributor to this growth was the continued strength in the home building sector partially attributed to the limited inventory of existing homes. A staggering 90% of homebuyers felt committed to the low-rate mortgages they secured during the pandemic, leading to a nearly 24% year-over-year increase in new home sale prices in June.

The trends witnessed in July underscore a versatile and burgeoning U.S. economy, demonstrating fresh areas of growth.

Portfolio commentary

The THB US Micro Cap Fund returned 2.9% in AUD (net of fees) in July 2023. The portfolio saw positive contribution from over allocation to Energy (+0.59%), under allocation to Health Care (+0.44%), and stock selection in Energy (+0.36%). Negative contribution came mainly from under allocation to Financials (-0.87%), stock selection in Health Care (-0.72%), and over allocation to Information Technology (-0.54%).

THB's top five performing stocks (from a contribution standpoint) were Holley, Inc. (Consumer Discretionary, +0.78%); Tetra Technologies, Inc. (Energy, +0.75%); RPC, Inc. (Energy, +0.35%); Expro Group Holdings NV (Energy, +0.33%); and BJ's Restaurants, Inc. (Consumer Discretionary, +0.23%).

The bottom five performing stocks (from a contribution standpoint) were Perficient, Inc. (Information Technology, -0.25%); Shyft Group, Inc. (Industrials, -0.17%); FIGS, Inc. Class A (Consumer Discretionary, -0.17%); NVE Corporation (Information Technology, -0.16%); and LeMaitre Vascular, Inc. (Health Care, -0.16%).

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

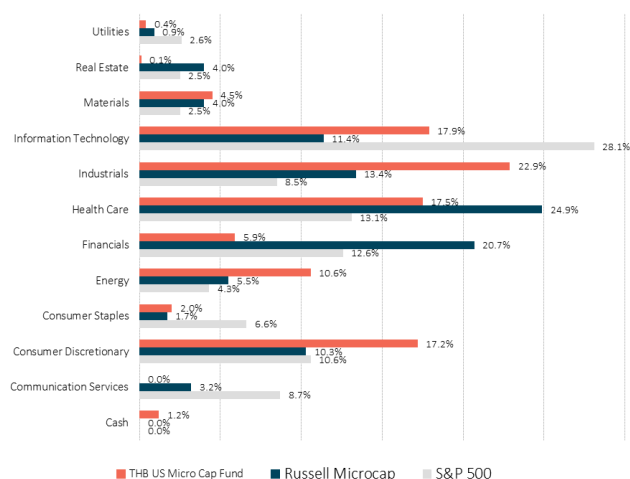
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$89 million

Performance ¹ – 31 July 2023			
	Fund ²	Russell Microcap®	Difference
1 month	2.9%	4.1%	(1.1%)
3 months	14.8%	11.7%	3.2%
1 year	15.3%	5.8%	9.5%
2 years p.a.	(1.3%)	(5.2%)	3.9%
3 years p.a.	17.5%	12.9%	4.5%
5 years p.a.	7.0%	5.2%	1.8%
Since inception p.a. ²	11.3%	10.5%	0.8%

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 allocation³



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.

3. 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 statistics⁴

As at 31 July 2023		
	Fund	Russell Microcap®
Weighted avg market cap	US\$997m	US\$663m
Price/sales	1.1x	1.1x
Price/book	2.0x	1.6x
Dividend yield	0.7%	1.4%
Number of securities	96	1,537
Standard deviation	21.4%	21.5%
Sharpe ratio	0.5	0.4
Beta	1.0	
Tracking error	6.5	
Information ratio	0.3	

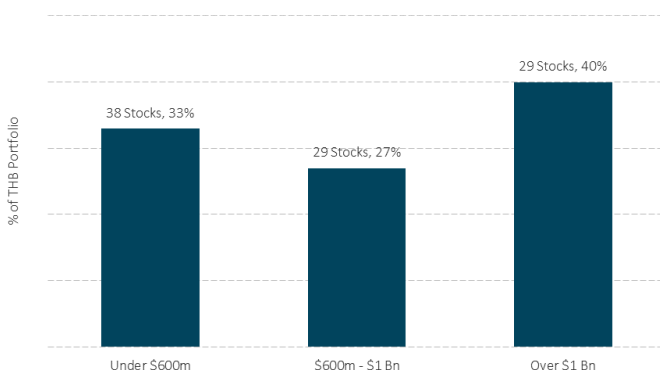
4. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
UFP Technologies, Inc.	Health Care	2.9%
TETRA Technologies, Inc.	Energy	2.9%
LeMaitre Vascular, Inc.	Health Care	2.3%
Ichor Holdings, Ltd.	Technology	2.2%
Transcat, Inc.	Industrials	2.2%
ePlus inc.	Technology	2.2%
RPC, Inc.	Energy	2.1%
Preformed Line Products	Industrials	2.1%
Overstock.com, Inc.	Consumer Disc	2.1%
Holley Inc.	Consumer Disc	2.0%

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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For more information, contact Brookvine Client Service on clientservice@brookvine.com.au

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