

THB US Micro Cap Fund

Monthly Report – August 2023

Market commentary

The Russell Microcap® Index returned -2.9% (AUD) in August 2023. Energy (+1.04%) was the best performing sector followed by Utilities (+0.39%) and Industrials (-2.36%). Information Technology (-9.78%) performed the worst, followed by Health Care (-9.52%) and Materials (-9.03%).

In August, U.S. equity indices were broadly lower, with the S&P 500 and Nasdaq suffering their first monthly declines since February. Energy-related indices emerged as the outliers, registering positive performances with WTI crude trading up 2.2% for a third straight monthly gain. One of the more prominent headwinds facing stocks in August was the backup in rates despite the traction behind the broader disinflation narrative.

Throughout the month, several indicators underscored the US economy's adaptability. Key among these were the diminishing fears of a recession, consistent oil demand, and the government's intensified push for nationwide high-speed internet.

The U.S. core consumer price index registered a mere 0.2% increase for the second month running, marking its most modest rise in over two years, and indicating easing inflation concerns. On the employment front, July saw the addition of an impressive 324K jobs. This growth suggests a keen hiring appetite among businesses, even in the face of potential economic challenges.

Oil prices surpassed \$88 per barrel in London in August, reflecting the resumption of post-pandemic consumption patterns. Despite a worldwide pivot to renewables, countries like China maintain a robust oil demand. Moreover, the IEA predicts a further surge in oil prices, propelled by a spike in summer air travel and heightened power generation demands.

Portfolio commentary

The THB US Micro Cap Fund returned -0.1% in AUD (net of fees) in August 2023. The portfolio saw positive contribution from overallocation to Industrials (+0.89%), stock selection in Information Technology (+0.75%), and overallocation to Energy (+0.74%). Negative contribution came mainly from under allocation to Real Estate (-0.81%) as well as stock selection in Health Care (-0.46%) and Consumer Discretionary (-0.40%).

THB's top five performing stocks (from a contribution standpoint) were Tetra Technologies, Inc. (Energy, +0.63%); Limbach Holdings, Inc. (Industrials, +0.51%); Transcat, Inc. (Industrials, +0.48%); ePlus, Inc. (Information Technology, +0.40%); and PAR Technology Corporation (Information Technology, +0.30%).

The bottom five performing stocks (from a contribution standpoint) were Overstock.com, Inc. (Consumer Discretionary, -0.60%); BioLife Solutions, Inc. (Health Care, -0.46%); Luna Innovations, Inc. (Information Technology, -0.44%); NAPCO Security Technologies, Inc. (Information Technology, -0.38%); and BJ's Restaurants, Inc. (Consumer Discretionary, -0.32%).

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

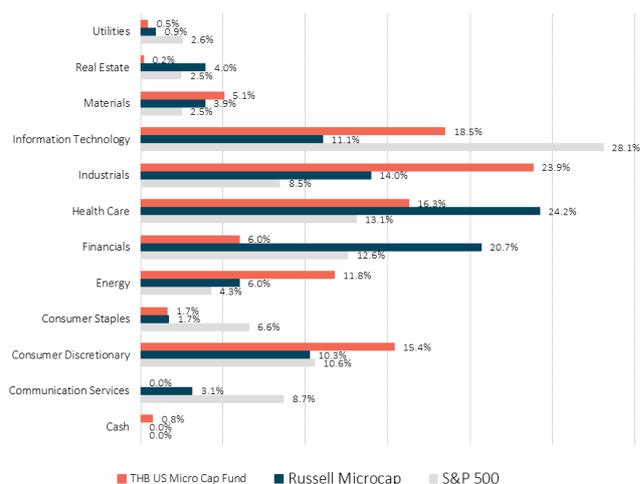
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$88 million

Performance ¹ – 31 August 2023			
	Fund ²	Russell Microcap®	Difference
1 month	(0.1%)	(2.9%)	2.8%
3 months	9.6%	4.7%	4.8%
1 year	16.8%	0.8%	16.0%
2 years p.a.	(2.5%)	(8.5%)	5.9%
3 years p.a.	15.7%	10.8%	4.9%
5 years p.a.	5.5%	3.1%	2.4%
Since inception p.a. ²	11.2%	10.0%	1.2%

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 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 August 2023		
	Fund	Russell Microcap®
Weighted avg market cap	US\$963m	US\$655m
Price/sales	1.1x	1.1x
Price/book	1.9x	1.5x
Dividend yield	0.7%	1.5%
Number of securities	97	1,523
Standard deviation	21.3%	21.6%
Sharpe ratio	0.4	0.3
Beta	0.9	
Tracking error	6.5	
Information ratio	0.4	

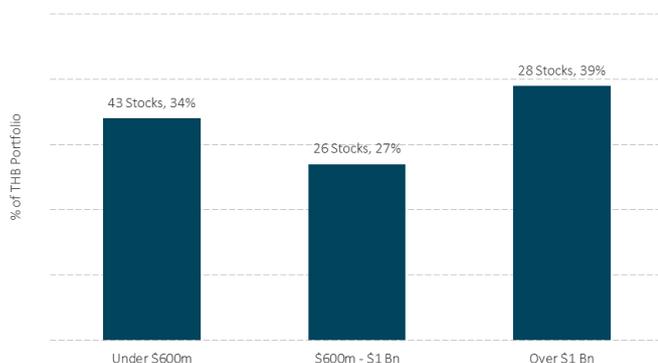
4. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
TETRA Technologies, Inc.	Energy	3.6%
UFP Technologies, Inc.	Health Care	2.8%
Transcat, Inc.	Industrials	2.8%
ePlus inc.	Technology	2.5%
Ichor Holdings, Ltd.	Technology	2.2%
LeMaitre Vascular, Inc.	Health Care	2.2%
RPC, Inc.	Energy	2.2%
Preformed Line Products	Industrials	2.1%
Johnson Outdoors Inc. Class A	Consumer Disc	1.8%
M/I Homes, Inc.	Consumer Disc	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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For more information, contact Brookvine Client Service on clientservice@brookvine.com.au

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