

THB US Micro Cap Fund

Monthly Report – October 2023

Market commentary

The Russell Microcap® Index returned -5.4% (AUD) in October 2023. Utilities (+3.22%) was the best performing sector followed by Consumer Staples (-1.04%) and Financials (-2.21%). Information Technology (-12.79%) performed the worst, followed by Health Care (-10.68%) and Materials (-9.80%).

October brought a downturn in all U.S. market indices as market participants digested long and short-term impacts from the Israeli Palestinian conflict. Concerns of a broader, regional conflict in the Middle East weighed on sentiment during the month. Rolling strikes by the United Auto Workers at major auto manufacturers also increased concerns about forward economic output.

Recent data showcased a resilient U.S. economy with third-quarter GDP growing by 4.9%. This increase was driven primarily by robust consumer spending and higher wages from a tight labor market. The growth not only surpassed predictions of 4.3% but also notably exceeded the 2.1% growth observed in the second quarter.

Notable in the month were two large acquisition agreements in the Oil and Gas sector: Exxon acquired Pioneer for \$60B and Chevron acquired Hess for \$53B. These acquisitions were indicative of the fossil fuel industry's positive investment outlook for hydrocarbons notwithstanding green energy transition targets.

The Biden Administration announced allocations of their previously passed stimulus aimed at reducing energy costs, decreasing the frequency of power outages, and accelerating the transition to clean energy. Three and a half billion dollars were allocated towards 58 projects spread across 44 states that will be used to harden the nation's electrical power grid. These projects are designed to attract an additional eight billion in public-private partnership funding.

Portfolio commentary

The THB US Micro Cap Fund returned -8.7% in AUD (net of fees) in October 2023. The portfolio saw positive contribution from stock selection in Health Care (+0.79%), under allocation to Real Estate (+0.54%), and stock selection in Information Technology (+0.18%). Negative contribution came mainly from stock selection in Energy (-0.97%) and Real Estate (-0.70%) as well as over allocation to Energy (-0.57%).

THB's top five performing stocks (from a contribution standpoint) were Universal Technical Institute, Inc. (Consumer Discretionary, +0.08%); BJ's Restaurants, Inc. (Consumer Discretionary, +0.08%); Vericel Corporations (Health Care, +0.08%); First Busey Corporation (Financials, +0.08%); and Richardson Electronics, Ltd. (Information Technology, +0.05%).

The bottom five performing stocks (from a contribution standpoint) were TETRA Technologies, Inc. (Energy, -0.97%); Expro Group Holdings N.V. (Energy, -0.58%); Ichor Holdings, Ltd. (Information Technology, -0.44%); PAR Technology Corporation (Information Technology, -0.35%); and Preformed Line Products Company (Industrials, -0.34%).

During the month, THB's portfolio companies announced 15 share repurchase authorisations and 12 acquisitions.

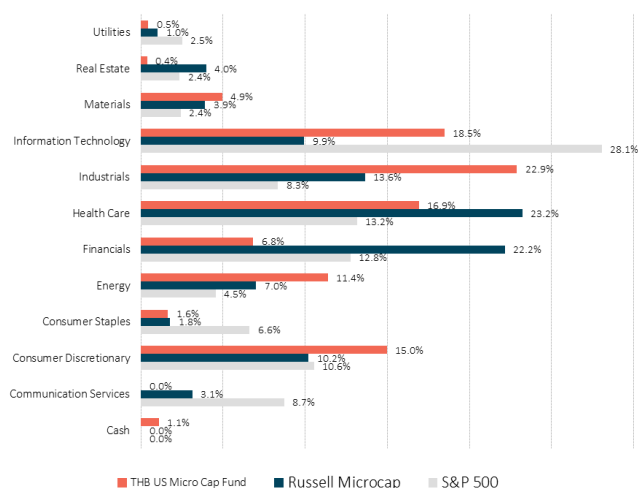
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$75 million

Performance ¹ – 31 October 2023			
	Fund ²	Russell Microcap®	Difference
1 month	(8.7%)	(5.4%)	(3.3%)
3 months	(13.8%)	(13.7%)	(0.1%)
1 year	(7.2%)	(15.6%)	8.4%
2 years p.a.	(6.8%)	(12.2%)	5.4%
3 years p.a.	8.1%	5.4%	2.7%
5 years p.a.	5.0%	3.4%	1.6%
Since inception p.a. ²	9.2%	8.4%	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 October 2023		
	Fund	Russell Microcap®
Weighted avg market cap	US\$818m	US\$606m
Price/sales	0.9x	1x
Price/book	1.6x	1.3x
Dividend yield	0.9%	1.8%
Number of securities	97	1,514
Standard deviation	21.6%	21.7%
Sharpe ratio	0.3	0.2
Beta	1.0	
Tracking error	6.6	
Information ratio	0.3	

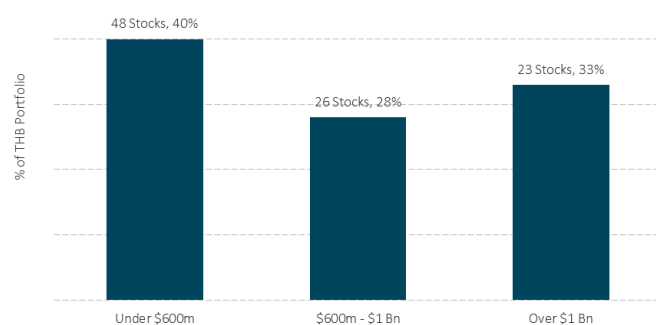
4. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
UFP Technologies, Inc.	Health Care	3.0%
ePlus inc.	Technology	2.8%
TETRA Technologies, Inc.	Energy	2.7%
RPC, Inc.	Energy	2.7%
Transcat, Inc.	Industrials	2.4%
LeMaitre Vascular, Inc.	Health Care	2.2%
Preformed Line Products	Industrials	2.0%
Universal Technical Institute	Consumer Disc	1.9%
Immersion Corporation	Technology	1.9%
Johnson Outdoors Inc. Class A	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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