

# THB International (ex-USA) Micro Cap Fund – Class W

## Quarterly Report – Q2 2023

### Market commentary

The MSCI World ex USA Small Cap Index (the “Index”) returned 1.1% (AUD) in Q2 2023.

Financials (+4.88%) was the best performing sector, followed by Utilities (+3.96%) and Information Technology (+3.66%). Materials (-3.62%) was the worst performing sector, followed by Communication Services (-3.47%) and Real Estate (-3.18%).

Denmark (+5.18%) was the best performing country, followed by New Zealand (+3.23%) and Italy (+3.18%). Hong Kong (-6.83%), Sweden (-5.91%), and Belgium (-4.37%) were the worst performing countries in the Index.

International equities posted mixed results with larger capitalisation generally outperforming smaller capitalisation. Sentiment in the European markets was muted as macro-economic data signaled the economic growth in the region was slowing but it avoided recession in the first quarter.

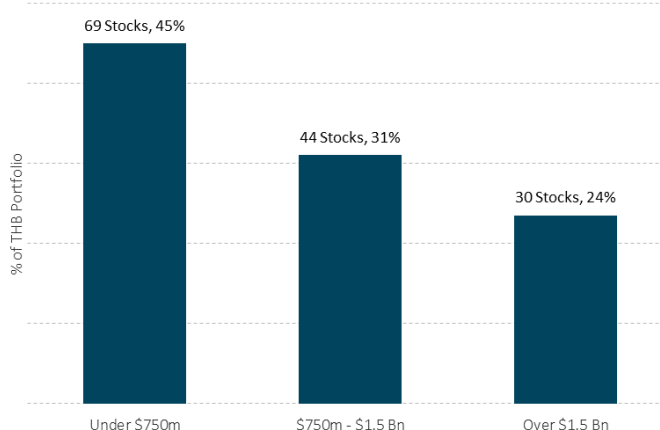
Investors’ hopes of soft landing were counterbalanced by fears of central banks overtightening. European Commission called on EU governments to gradually start tightening fiscal policy since an expected technical recession did not materialise, the labour market remained tight and borrowing costs were rising fast as the European Central Bank was working to bring down high inflation. The MSCI World Ex US Small Cap was -.44% versus +3.73% for the large cap MSCI World Ex US Index.

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) <sup>2</sup>
Inception date	23 August 2018
Fund size	A\$22 million

Net performance <sup>1</sup> – 30 June 2023			
	Fund <sup>1</sup>	MSCI World ex USA Small Cap <sup>2</sup>	MSCI World ex USA Micro Cap <sup>3</sup>
1 month	(0.9%)	0.2%	0.4%
3 months	(1.9%)	1.1%	(0.7%)
1 year	7.4%	13.7%	5.9%
2 years p.a.	(7.5%)	(2.3%)	(5.7%)
3 years p.a.	3.5%	7.6%	7.9%
Since inception	1.9%	4.1%	3.8%

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. Fund inception date was 23 August 2018 however inception performance for this class is calculated from 7 September 2018.

### Companies by market capitalisation



Source: THB Asset Management

1. The MSCI World ex-USA Small Cap Total Return Index (AUD) captures small cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With ~2,496 constituents, the Index covers approximately 14% of the free float-adjusted market capitalisation in each country.

Source: MSCI

2. The MSCI World ex USA Micro Cap Index captures micro cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With ~4,735 constituents, the index covers approximately 1% of the free float-adjusted market capitalisation in each country.

## Portfolio commentary

The THB International (ex-USA) Micro Cap Fund returned -1.9% (net of fees) in Q2 2023.

Contributors to the portfolio's performance were stock selection in Canada, Israel, and Sweden. Detractors from performance included stock selection in Japan and Australia as well as overallocation to Japan.

From a sector perspective, primary contributors to performance mainly came from under allocation to Financials, Real Estate, and Consumer Discretionary. Stock selection in Financials, Consumer Discretionary, and Information Technology were primary detractors to performance this quarter.

THB's top five performing stocks (from a contribution standpoint) were 2G Energy AG (Germany, Industrials, +0.23%); HMS Networks AB (Sweden, Information Technology, +0.17%); Organo Corp. (Japan, Industrials, +0.16%); Judges Scientific plc. (United Kingdom, Industrials, +0.16%); and Renew Holdings plc. (United Kingdom, Industrials, +0.16%).

The bottom five performing stocks (from a contribution standpoint) were Hexatronic Group AB (Sweden, Health Care, -0.52%); Cybozu, Inc. (Japan, Information Technology, -0.42%); TGS ASA (Norway, Energy, -0.32%); U-Blox Holding AG (Switzerland, Information Technology, -0.25%); and Lovisa Holdings, Ltd. (Australia, Consumer Discretionary, -0.24%).

The Strategy's companies continue to deploy capital with the goal of increasing shareholder value. They announced 15 share repurchase authorisations and 29 acquisitions in the second quarter.

Artificial Intelligence (AI) is not a new phenomenon but surged in media coverage since the launch of OpenAI's ChatGPT to the public. In typical Wall Street fashion, there is a mix of reality and hype surrounding AI and companies which may benefit from it.

Some small companies in THB portfolios that have already integrating AI tools in their products include:

**Esker**, based in France, has developed a proprietary cloud-based software platform for the automation of back-office processes. The company's key products include order-to-cash, automating the processes from customer order to invoice collection and procure-to-pay, which address the steps from the selection of suppliers to payments. Its solutions incorporate AI technologies to drive increased productivity, enhanced visibility, and reduced fraud risk for customers. Esker's software accelerates the cash conversion cycle for its customers and frees up administrative personnel from time-consuming repetitive tasks. The company has an attractive business model with high recurring revenue, pristine balance sheet and strong cash flow generation.

**BioGaia** AB is a Sweden-based health care company that develops, manufactures, and sells clinically-tested high-quality probiotic products. In 2021, the company formed a new subsidiary BioGaia Invest (BGI) with a focus on new technologies to support its growth strategy. In 2022, BGI completed a small investment in Boneprox, a business that uses AI to assess bone health via dental x-rays. BioGaia is conducting research in the area and has products for bone health and oral health which address the needs of people with low bone density. In the same year, Boneprox established its service with the main dental clinic chains in Sweden and Norway. Promising initiatives are also progressing in Japan. In the future, management believes the collaboration can be extended in diagnostics, oral health and other indications.

To support the growing adaption of AI and the wider commercialisation of the technology across different industries, there will be higher need for investments in infrastructure. The advancement of Generative AI will drive higher hardware requirements for more powerful and larger chips. The construction of the needed semiconductor plants will create ripple effects to small and mid-sized companies in other industries such as construction, materials, engineering and services.

## Portfolio statistics<sup>4</sup>

As at 30 June 2023		
	Fund	Benchmark
Weighted avg market cap	US\$1,018m	US\$2,613m
Price/sales	1.5x	0.9x
Price/Book	2.7x	1.3x
Dividend yield	2.0%	3.1%
Number of securities	143	2,489
Standard deviation	19.6%	17.1%
Sharpe ratio	0.47	
Beta	1.08	
Tracking error	6.51	
Information ratio	0.67	

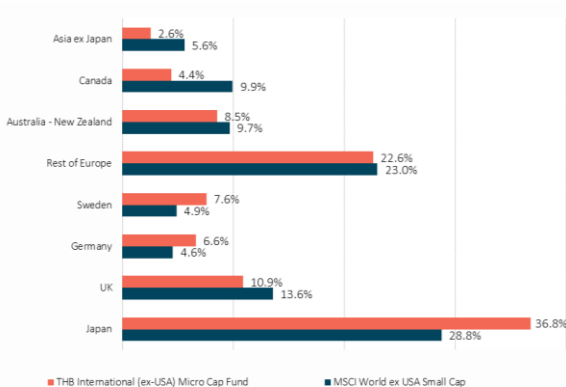
Source: THB Asset Management

## Top 10 holdings<sup>5</sup>

Stock	Sector/Country	Weight
Organo Corp.	Industrials/Japan	1.8%
Judges Scientific plc	Industrials/UK	1.3%
Kardex Holding AG	Industrials/Switzerland	1.2%
2G Energy AG	Industrials/Germany	1.2%
TGS ASA	Energy/Norway	1.2%
Transaction Co., Ltd.	Consumer Staples/Japan	1.2%
Shoei Co. Ltd. (7839)	Consumer Disc/Japan	1.1%
Cybozu, Inc.	Technology/Japan	1.1%
SeSa S.p.A.	Technology/Italy	1.1%
COMET Holding AG	Technology/Switzerland	1.1%

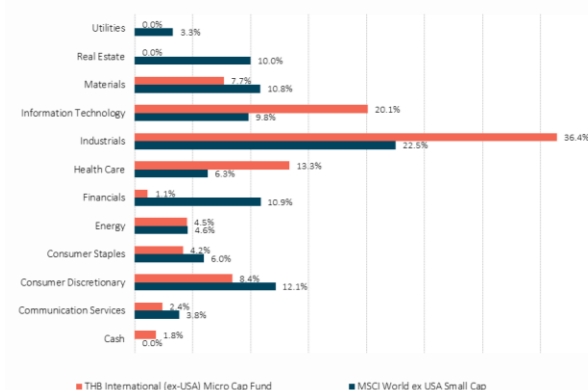
Source: THB Asset Management

## Country allocation<sup>5</sup>



Source: THB Asset Management

## Sector allocation<sup>5</sup>



Source: THB Asset Management

4. Portfolio statistics are reported in USD.

5. 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.

## 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 International Opportunities strategy is based on the belief that there are inefficiencies in the micro cap segment of the market due to lack of analyst coverage, limited investable options, resource constraints and difficulty in identifying value. THB utilises a disciplined, fundamental approach that blends both qualitative and quantitative methods to construct a well-diversified, low-risk portfolio of companies that possess attractive operating metrics, yet with comparable valuation to the MSCI World ex USA Small Cap® Index.

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