

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

## Quarterly Report – Q3 2023

### Market commentary

The MSCI World ex USA Small Cap Index (the “Index”) returned -0.4% (AUD) in Q3 2023.

Energy (+14.33%) was the best performing sector, followed by Financials (+0.29%) and Consumer Staples (+0.11%). Information Technology (-8.05%) was the worst performing sector, followed by Utilities (-7.31%) and Materials (-6.30%).

Israel (+0.80%) was the best performing country, followed by Japan (+0.16%) and Spain (-0.73%). Finland (-10.72%), Sweden (-10.39%), and Denmark (-8.74%) were the worst performing countries in the Index.

International Equities closed the third quarter on a negative note posting consecutive monthly price declines which drove all major indices negative during the quarter. Broad based declines were likely a give back from the strong and unanticipated returns leading into the quarter plus a confluence of events and issues which weighed on economic expectations.

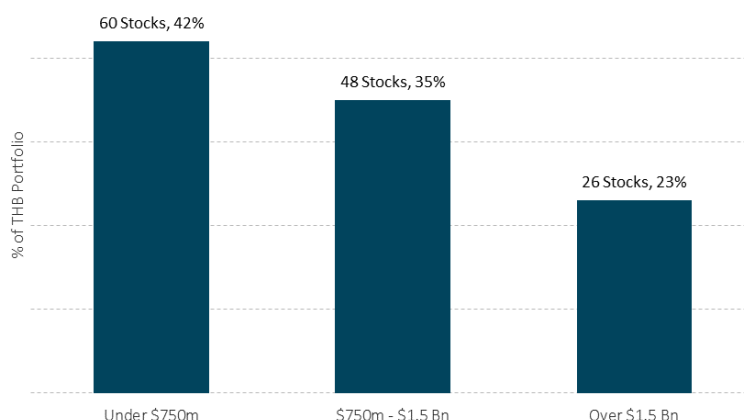
The optimism of the preceding quarter gave way as pre-existing concerns about the economy, higher interest rates and rising crude oil prices. Realisation that interest rates may stay higher for longer came during what is historically the weakest seasonal period for stocks.

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) <sup>2</sup>
Inception date	23 August 2018
Fund size	A\$20 million

Net performance <sup>1</sup> – 30 September 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	(6.0%)	(4.1%)	(2.5%)
3 months	(5.7%)	(0.4%)	(0.3%)
1 year	5.4%	16.9%	9.4%
2 years p.a.	(15.0%)	(4.7%)	(7.6%)
3 years p.a.	(2.1%)	5.5%	4.8%
Since inception	0.6%	3.8%	3.6%

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 -5.7% (net of fees) in Q3 2023.

Contributors to the portfolio's performance were stock selection in Australia and Canada as well as under allocation to Israel.

Detractors from performance included stock selection in Japan and Sweden as well as overallocation to Sweden.

From a sector perspective, primary contributors to performance mainly came from stock selection in Financials and Communication Services as well as under allocation to Materials. Overallocation to Information Technology, under allocation to Financials, and stock selection in Industrials were primary detractors to performance this quarter.

THB's top five performing stocks from a contribution standpoint were Ergomed PLC (United Kingdom, Health Care, +0.27%); Trican Well Service, Ltd. (Canada, Energy, +0.26%); PWR Holdings, Ltd. (Australia, Consumer Discretionary, +0.25%); Johns Lyng Group, Ltd. (Australia, Industrials, +0.21%); and MMA Offshore Limited. (United Kingdom, Industrials, +0.11%).

The bottom five performing stocks from a contribution standpoint were El.En. S.p.A. (Italy, Health Care, -0.24%); Basler AG (Germany, Information Technology, -0.23%); Sectra AB Class B (Sweden, Health Care, -0.23%); U-Blox Holding AG (Switzerland, Information Technology, -0.22%); and Revenio Group Oyj (Finland, Health Care, -0.21%).

The Strategy's companies continue to deploy capital with the goal of increasing shareholder value. They announced 17 share repurchase authorisations and 22 acquisitions in the third quarter.

One portfolio holding to highlight this quarter is TGS ASA (TGS).

Norwegian based, TGS provides geoscientific data and services to global O&G exploration companies. TGS works in the multi-client space where it retains ownership and control of the data and can license it to multiple parties. E&P companies often prefer multi-client over proprietary because the cost is substantially lower. Typically, one or more clients will commit to licensing the data before acquisition begins, which is called 'pre-funding'. The company offers one of the largest libraries of geoscience and engineering data in the industry. Its data library provides re-processing opportunities for revenue and ability to selectively invest in 3D seismic data projects. Its attractive business model generates high EBITDA margins and supports a strong balance sheet which the company has successfully deployed toward strategic acquisitions.

Having completed over 20 deals, TGS is an industry consolidator and has enhanced their product offering across both the O&G and renewable energy space. For example, the acquisition of Spectrum in 2019 added to their multi-client data business, Magseis in 2022 added capabilities in the Ocean Bottom Node ILX space and Prediktor in 2022 added performance optimisation software that is installed on many of the largest solar projects.

Most recently in September, TGS announced a merger agreement with its competitor and partner, PGS which is also Norway based. The combined company would have a 50% larger multi-client data library in complementary basins. PGS is a leader in the marine streamer market which would allow TGS to vertically integrate and provide in-house capabilities in a highly consolidated seismic vessel market. The supply of seismic vessels has declined from about 60 3D vessels in 2013 to 17 today with PGS controlling 7 of them. Management estimates about \$50 million in annual cost synergies coming from technology and digitalisation. The combination would allow

TGS to capture higher share of the growing investment in O&G exploration and expand into new energy opportunities such as offshore wind and carbon capture.

## Outlook

During the post COVID period, models and forecasts have shown their failings in the economy amongst other areas. Despite these glaring shortcomings, we still yearn for someone or entity to accurately predict the future for us. Unfortunately, this will likely not happen. Still, many wait anxiously for Central banks to give us their thoughts on the interest rates and the economy or a star portfolio manager to explain his or her holdings which will define the new economy.

Interest rates and the Central banks' actions or non-actions will likely saturate the press in the coming months. However, patience is needed for their work to bear fruit in slowing the economy and reducing inflation.

THB prefers to focus on the current and not gaze too far into future nor rely on the past as a perfect predictor. There are many current positives for high quality small and mid-cap equities which THB believes can deliver above average returns in the coming periods. Waiting for perfect clarity is one of the more expensive investment propositions.

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

As at 30 September 2023		
	Fund	Benchmark
Weighted avg market cap	US\$1,043m	US\$2,509m
Price/sales	1.2x	0.9x
Price/Book	2.36x	1.3x
Dividend yield	2.3%	3.1%
Number of securities	134	2440
Standard deviation	19.5%	17.0%
Sharpe ratio	0.40	
Beta	1.08	
Tracking error	6.55	
Information ratio	0.54	

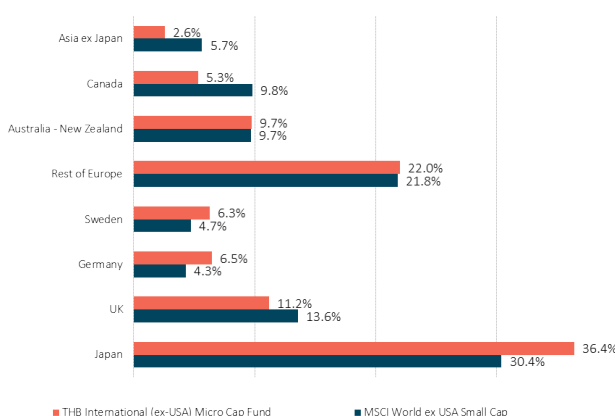
Source: THB Asset Management

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

Stock	Sector/Country	Weight
PWR Holdings Ltd.	Consumer Disc/Australia	1.4%
Judges Scientific plc	Industrials/UK	1.4%
Trican Well Service Ltd.	Energy/Canada	1.4%
Johns Lyng Group Ltd	Industrials/Australia	1.4%
Kardex Holding AG	Industrials/Switzerland	1.4%
TGS ASA	Energy/Norway	1.2%
4imprint Group plc	Comm. Services/UK	1.2%
2G Energy AG	Industrials/Germany	1.2%
COMET Holding AG	Technology/Switzerland	1.1%
Shoei Co. Ltd. (7839)	Consumer Disc/Japan	1.1%

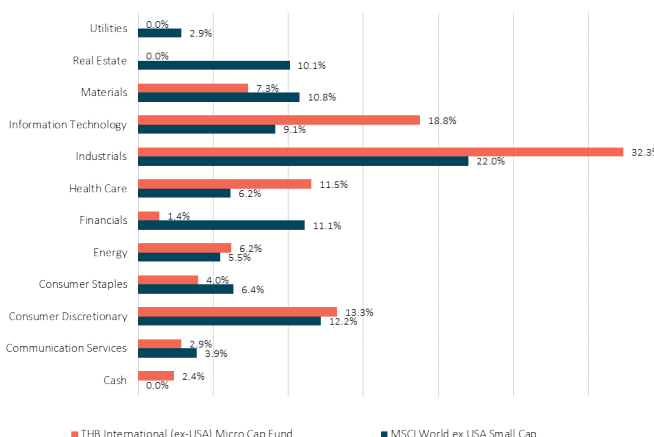
Source: THB Asset Management

## 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.

**BROOKVINE**



For more information, contact Brookvine Client Service on [clientservice@brookvine.com.au](mailto:clientservice@brookvine.com.au)

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