

THB US Micro Cap Fund

Monthly Report – January 2024

Market commentary

The Russell Microcap® Index returned -0.8% (AUD) in January 2024. Health Care (+1.01%) was the best performing sector followed by Energy (-2.01%) and Industrials (-3.01%). Utilities (-13.53%) performed the worst, followed by Materials (-9.46%) and Real Estate (-8.77%).

U.S. equities delivered mixed performance in January. Large cap indices posted modest gains which led the Nasdaq and S&P 500 to new record highs while smaller capitalisation indices declined as they consolidated the very strong gains experienced in 4Q 2023. Growth outperformed value during the month across all market capitalisations.

Expectations of early rate cuts this year were tempered by a robust labor market as the U.S. economy added 353K jobs in January and unemployment held at 3.7%. As the economy performed above expectations, the Fed kept interest rates steady, adopting a cautious approach to inflation and hinting at possible rate reductions later this year.

Investments into U.S. companies and manufacturing assets continued to increase as GM and Honda embarked on a joint venture, launching a \$85M commercial production facility in Michigan for hydrogen fuel cell systems. Flush with cash, many Japanese companies have been making major investments, such as Nippon Steel's \$14B offer to acquire US Steel, and Sekisui's \$5B acquisition of M.D.C Holdings.

Portfolio commentary

The THB US Micro Cap Fund returned -1.2% in AUD (net of fees) in January 2024. The portfolio saw positive contribution from stock selection in Information Technology (+0.82%), underallocation to Real Estate (+0.81%), and overallocation to Information Technology (+0.33%). Negative contribution came mainly from stock selection in Real Estate (-0.75%), Health Care (-0.72%), and Consumer Discretionary (-0.27%).

THB's top five performing stocks (from a contribution standpoint) were Vericel Corporation (Health Care, +0.31%); Universal Technical Institute, Inc. (Consumer Discretionary, +0.24%); Brightsphere Investment Group, Inc. (Financials, +0.23%); Ultra Clean Holdings, Inc. (Information Technology, +0.18%); and Ichor Holdings, Ltd. (Information Technology, +0.15%).

The bottom five performing stocks (from a contribution standpoint) were Ranpak Holdings Corp. (Materials, -0.20%); Richardson Electronics, Ltd. (Information Technology, -0.23%); Live Oak Bankshares, Inc. (Financials, -0.25%); Johnson Outdoors, Inc. (Consumer Discretionary, -0.25%); and Beyond, Inc. (Consumer Discretionary, -0.34%).

During the month, THB's portfolio companies announced seven acquisitions.

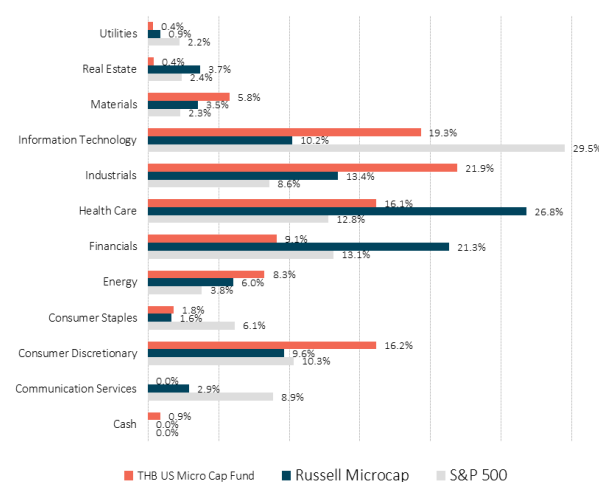
Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$82 million

Performance ¹ – 31 January 2024			
	Fund ²	Russell Microcap®	Difference
1 month	(1.2%)	(0.8%)	(0.5%)
3 months	11.9%	15.2%	(3.3%)
1 year	7.1%	02.0%	5.1%
2 years p.a.	0.7%	(1.6%)	2.3%
3 years p.a.	2.7%	(0.2%)	2.9%
5 years p.a.	8.3%	7.7%	0.6%
Since inception p.a. ²	10.2%	9.8%	0.4%

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 January 2024		
	Fund	Russell Microcap®
Weighted avg market cap	US\$1,025m	US\$859m
Price/sales	1.1x	1.1x
Price/book	1.8x	1.5x
Dividend yield	0.8%	1.4%
Number of securities	98	1,490
Standard deviation	21.8%	22.1%
Sharpe ratio	0.4	0.3
Beta	0.9	
Tracking error	6.5	
Information ratio	0.2	

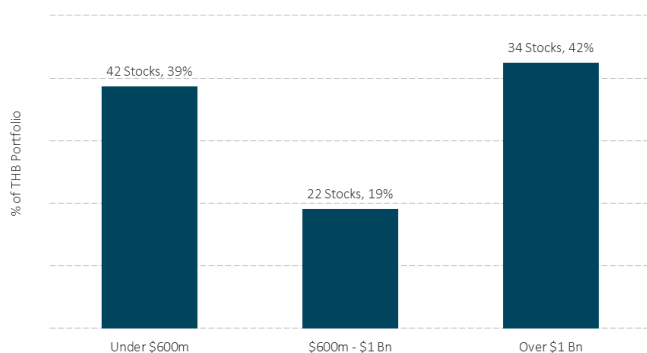
4. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
ePlus inc.	Technology	2.5%
Transcat, Inc.	Industrials	2.3%
UFP Technologies, Inc.	Health Care	2.3%
LeMaitre Vascular, Inc.	Health Care	2.2%
RPC, Inc.	Energy	2.1%
M/I Homes, Inc.	Consumer Disc	2.1%
Ichor Holdings, Ltd.	Technology	2.0%
Universal Technical Institute	Consumer Disc	2.0%
TETRA Technologies, Inc.	Energy	1.9%
First Busey Corporation	Financials	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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