

THB US Micro Cap Fund

Monthly Report – April 2024

Market commentary

The Russell Microcap® Index returned -7.3% (AUD) in April 2024. The Russell Microcap® Index (Index) returned -7.76% (USD) in April 2024. Consumer Staples (-1.08%) was the best performing sector followed by Energy (-3.81%) and Materials (-4.86%). Health Care (-11.25%) performed the worst, followed by Information Technology (-11.19%) and Consumer Discretionary (-7.85%).

US equities declined in April with major indices giving up some of the positive gains from the first quarter. Investor sentiment turned negative as expectations for Federal Reserve Interest rate cuts were pushed out from June to later in the year. This shift in expectations was due to positive economic data releases in April. The data highlighted stronger-than-expected growth and little downward movement in inflation:

- March nonfarm payrolls were sharply higher than consensus forecasts and unemployment trended lower (3.8% in March compared to 3.9% in February).
- Retail sales were stronger than the forecast and March core CPI printed higher than expectations.

In April, Freddie Mac (Federal Home Loan Mortgage Company) filed a proposal with its regulator, the Federal Housing Finance Agency, to enter the secondary mortgage market by purchasing closed-end secondary mortgages aimed at offering borrowers more affordable options to use their home equity than obtaining a cash-out refinance. This could provide an enormous stimulus to the economy and the consumer. US homeowners have approximately \$32 trillion in untapped equity.

Portfolio commentary

The THB US Micro Cap Fund returned -7.9% in AUD (net of fees) in April 2024. The portfolio saw positive contribution from stock selection in Health Care (+0.40%) and Information Technology (+0.36%) as well as overallocation to Materials (+0.29%). Negative contribution came mainly from stock selection in Consumer Discretionary (-0.92%), as well as overallocation to Consumer Discretionary (-0.57%), and underallocation to Financials (-0.29%).

THB's top five performing stocks (from a contribution standpoint) were Century Aluminum Company (Materials, +0.26%); Vital Farms, Inc. (Consumer Staples, +0.21%); Limbach Holdings, Inc. (Industrials, +0.14%); Quest Resource Holdings Corp. (Industrials, +0.13%); and NB Bancorp, Inc. (Financials, +0.09%).

The bottom five performing stocks (from a contribution standpoint) were Beyond, Inc. (Consumer Discretionary, -0.88%); Latham Group, Inc. (Consumer Discretionary, -0.55%); UFP Technologies, Inc. (Health Care, -0.54%); Century Communities, Inc. (Consumer Discretionary, -0.29%); and RPC, Inc. (Energy, -0.28%).

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

Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$86 million

Fund performance ¹ – 30 April 2024			
	Fund ²	Russell Microcap®	Difference
1 month	(7.9%)	(7.3%)	(0.6%)
3 months	3.6%	2.3%	1.3%
1 year	14.7%	13.5%	1.2%
2 years p.a.	7.7%	4.3%	3.3%
3 years p.a.	(0.7%)	(2.0%)	1.3%
5 years p.a.	7.9%	6.5%	1.4%
Since inception p.a. ²	10.4%	9.8%	0.6%

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. 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.

Composite performance ³ – 30 April 2024			
	Composite (Net)	Russell Microcap ⁴	S&P500
1 month	(8.1%)	(7.8%)	(4.1%)
3 months	1.9%	0.5%	4.3%
1 year	14.5%	11.5%	22.7%
3 years p.a.	(5.6%)	(7.5%)	8.1%
5 years p.a.	6.9%	4.8%	13.2%
10 years p.a.	6.7%	5.7%	12.4%
Inception p.a.	11.4%	6.1%	8.1%

3. Returns in USD; the THB Micro Cap Composite contains fully discretionary micro cap equity accounts. THB claims compliance with the Global Investment Performance Standards (GIPS). The minimum account size for this composite is US\$1 million. Performance is shown net of 1.25% p.a. management fees and assumes the reinvestment of income.

4. Since inception return is the Russell 2000 Index from June 1998 to December 2006, and Russell Microcap Index thereafter. 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.

Portfolio statistics⁵

As at 30 April 2024		
	Fund	Russell Microcap®
Weighted avg market cap	US\$1,100m	US\$854m
Price/sales	1.1x	1.1x
Price/book	1.9x	1.6x
Dividend yield	0.8%	1.5%
Number of securities	96	1,465
Standard deviation	21.8%	22.0%
Sharpe ratio	0.4	0.3
Beta	1.0	
Tracking error	6.5	
Information ratio	0.3	

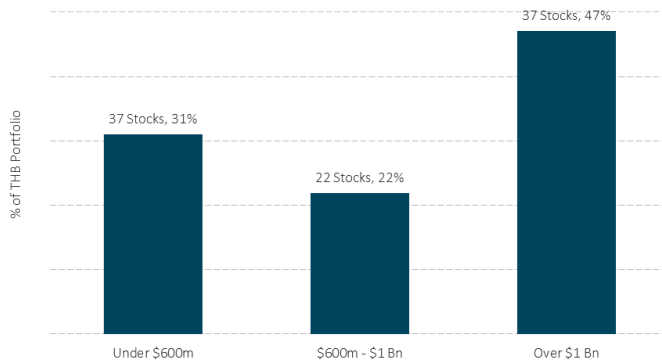
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
UFP Technologies, Inc.	Health Care	2.7%
ePlus inc.	Technology	2.5%
LeMaitre Vascular, Inc.	Health Care	2.4%
Transcat, Inc.	Industrials	2.3%
Universal Technical Institute	Consumer Disc	2.1%
Ichor Holdings, Ltd.	Technology	2.1%
Hawkins, Inc.	Materials	2.0%
BrightSphere Investment	Financials	2.0%
RPC, Inc.	Energy	1.9%
Vericel Corporation	Health Care	1.8%

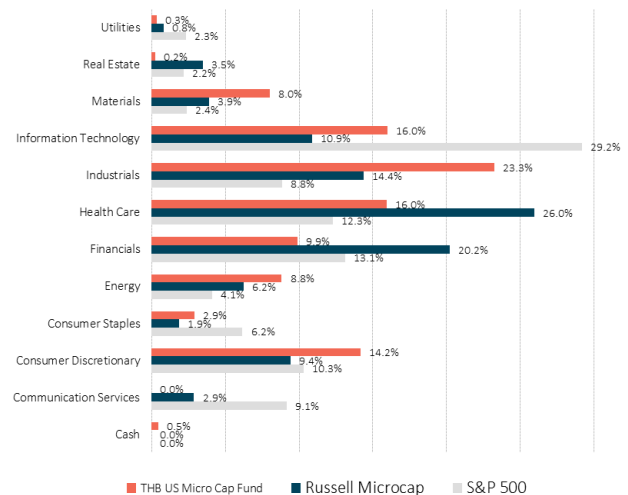
Source: THB Asset Management

Companies by market capitalisation



Source: THB Asset Management

Sector Allocation⁶



6. 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. 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 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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Asset Management
VICTORY CAPITAL MANAGEMENT FRANCHISE

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