

THB US Micro Cap Fund

Monthly Report – May 2024

Market commentary

The Russell Microcap® Index returned 2.6% (AUD) in May 2024. Consumer Staples (+10.81%) was the best performing sector followed by Energy (+9.94%) and Industrials (+9.07%). Communication Services (-0.62%) performed the worst, followed by Health Care (+2.93%) and Real Estate (+2.96%).

During the month, there were broad equity gains across all major indices and sectors. Large market capitalisation indices including the S&P 500®, Nasdaq® and Dow Jones® each reached record highs. Growth-tilted indices, such as the S&P 500 Growth® and the Russell 2000 Growth® benchmarks also posted notable gains.

The Conference Board's May Consumer Confidence Index highlighted a positive economic outlook, as the index grew to 102.0, ahead of consensus 95.7. The better-than-expected results were due to improvements in the labor market. The Bureau of Labour Statistics reported that 175K jobs were added in April, the 40th consecutive month of employment expansion. Additionally, the U.S. Chamber of Commerce reported that national employment was robust with 8.5M job openings in April, well-above the number of unemployed workers at 6.5M.

Large technology companies committed significant investments towards the construction of artificial intelligence (AI) data centers across the country. Among them, Meta revealed a \$840M build in Alabama, Microsoft announced a \$3B build in Wisconsin, and Amazon Web Services (AWS) introduced a \$10B build in Mississippi. This comes as AWS and Google recently stated their intentions to create data centers in Indiana worth \$11B and \$2B, respectively. These build outs will have a trickle-down impact on smaller companies as components, raw materials, engineering services, construction and environmental consulting will be needed to complete these projects in a timely manner.

Portfolio commentary

The THB US Micro Cap Fund returned 3.9% in AUD (net of fees) in May 2024. The portfolio saw positive contribution from stock selection in Health Care (+2.76%), underallocation to Real Estate (+0.63%), and stock selection in Information Technology (+0.36%). Negative contribution came mainly from underallocation to Health Care (-0.89%) as well as stock selection in Real Estate (-0.61%), and Industrials (-0.60%).

THB's top five performing stocks (from a contribution standpoint) were UFP Technologies, Inc. (Health Care, +0.71%); Immersion Corporation (Information Technology, +0.67%); Vital Farms, Inc. (Consumer Staples, +0.57%); Blue Bird Corporation (Industrials, +0.57%); and Latham Group, Inc. (Consumer Discretionary, +0.56%).

The bottom five performing stocks (from a contribution standpoint) were Beyond, Inc. (Consumer Discretionary, -0.29%); Koppers Holdings, Inc. (Materials, -0.24%); Cerence, Inc. (Information Technology, -0.18%); TETRA Technologies, Inc. (Energy, -0.16%); and Climb Global Solutions, Inc., (Information Technology, -0.15%).

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

Fund details	
Benchmark	Russell Microcap® Index ³
Inception date	5 September 2014
Fund size	A\$89 million

Fund performance ¹			
	Fund ²	Russell Microcap®	Difference
1 month	3.9%	2.6%	1.3%
3 months	(0.2%)	(2.7%)	2.5%
1 year	13.8%	12.4%	1.4%
2 years p.a.	10.4%	6.4%	4.0%
3 years p.a.	1.1%	(1.7%)	2.8%
5 years p.a.	9.7%	8.2%	1.5%
Since inception p.a. ²	10.7%	10.0%	0.7%

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			
	Composite (Net)	Russell Microcap ⁴	S&P500
1 month	6.2%	5.1%	5.0%
3 months	1.9%	(0.7%)	3.9%
1 year	18.4%	15.5%	28.2%
3 years p.a.	(3.5%)	(6.5%)	9.6%
5 years p.a.	9.6%	7.3%	15.8%
10 years p.a.	7.4%	6.3%	12.7%
Inception p.a.	11.6%	6.3%	8.2%

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

	Fund	Russell Microcap®
Weighted avg market cap	US\$1,238m	US\$936m
Price/sales	1.2x	1.2x
Price/book	2.0x	1.6x
Dividend yield	0.9%	1.4%
Number of securities	98	1,455
Standard deviation	21.8%	22.0%
Sharpe ratio	0.4	0.3
Beta	1.0	
Tracking error	6.5	
Information ratio	0.3	

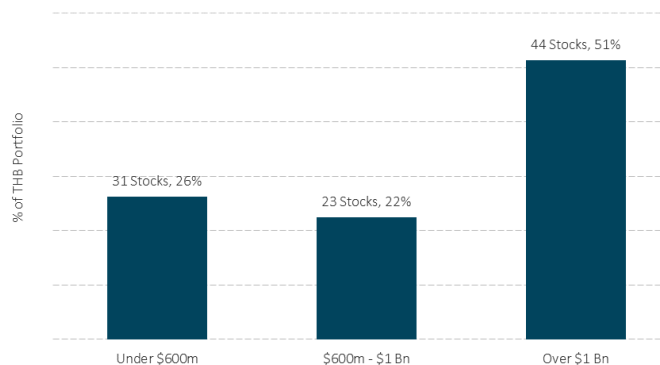
5. Portfolio statistics are reported in USD. Source: THB Asset Management

Top 10 holdings

Stock	Sector	Portfolio weight
UFP Technologies, Inc.	Health Care	3.1%
Transcat, Inc.	Industrials	2.6%
Immersion Corporation	Technology	2.4%
ePlus inc.	Technology	2.2%
Hawkins, Inc.	Materials	2.2%
Limbach Holdings, Inc.	Industrials	2.0%
Latham Group Inc	Consumer Disc	1.9%
BrightSphere Investment	Financials	1.9%
Vericel Corporation	Health Care	1.8%
RPC, Inc.	Energy	1.7%

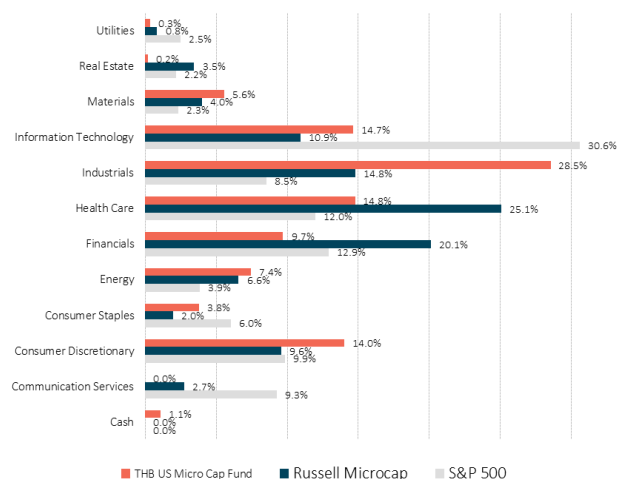
Source: THB Asset Management

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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