

# THB US Micro Cap Fund

## Monthly Report – July 2024

### Market commentary

The Russell Microcap® Index returned 14.4% (AUD) in July 2024. Financials (+15.84%) was the best performing sector followed by Health Care (+14.22%) and Utilities (+13.04%). Consumer Staples (+1.38%) performed the worst, followed by Energy (+5.49%) and Materials (+8.75%).

The month of July was positive both in relative and absolute terms for small-cap equities as the Russell 2000® and Russell Microcap® indices significantly outperforming the S&P 500® and technology heavy Nasdaq 100®. The performance marked a significant break with recent history as capital rotated from a narrow grouping of mostly mega cap technology companies into more diversified small cap indices. The pivot led Small Caps (Russell 2000®) to their best relative performance against the Nasdaq 100® since April 2002.

The rate on 30-year mortgages dropped to their lowest levels since March triggering a sharp rally in homebuilder stocks. The June Consumer Price Index fell by 0.1%, marking the first month-to-month decrease since May 2020 and annual inflation fell to 3% from 3.3%. Additionally, 206,000 new jobs were reported to be added in June, signaling ongoing strength in the labor market. Consumer spending was also resilient as retail sales recorded a 2.3% year-on-year increase.

Several major infrastructure spending announcements were made during the month. The Department of Transportation committed \$5 billion for major restoration, reconstruction, and repair works across thirteen major bridges in the United States. The projects partially drew funding from a \$40 billion allocation in the Bipartisan Infrastructure law for bridges that must be spent within the next five years. Other significant developments include the State of Georgia's approval of a \$1.5 billion budget for the expansion and rebuild of Interstates 16, 20, and 75.

### Portfolio commentary

The THB US Micro Cap Fund returned 14% in AUD (net of fees) in July 2024. The portfolio saw positive contribution from stock selection in Financials (+0.64%), Information Technology (+0.60%), and Consumer Discretionary (+0.46%). Negative contribution came mainly from overallocation to Industrials (-0.66%), underallocation to Financials (-0.66%), and stock selection in Health Care (-0.45%).

THB's top five performing stocks (from a contribution standpoint) were Immersion Corporations (Information Technology, +0.89%); UFP Technologies, Inc. (Health Care, +0.69%); ePlus, Inc. (Information Technology, +0.59%); M/I Homes, Inc. (Consumer Discretionary, +0.48%); and Century Communities, Inc. (Consumer Discretionary, +0.42%).

The bottom five performing stocks (from a contribution standpoint) were Ultra Clean Holdings, Inc. (Information Technology, -0.10%); BJ's Restaurants, Inc. (Consumer Discretionary, -0.09%); Greenbrier Companies, Inc. (Industrials, -0.06%); Dril Quip, Inc. (Energy, -0.06%); and International Seaways, Inc., (Energy, -0.06%).

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

Fund details	
Benchmark	Russell Microcap® Index <sup>3</sup>
Inception date	5 September 2014
Fund size	A\$93 million

Fund performance <sup>1</sup>			
	Fund <sup>2</sup>	Russell Microcap®	Difference
1 month	14.0%	14.4%	(0.4%)
3 months	13.9%	14.2%	(0.4%)
1 year	13.7%	16.1%	(2.4%)
2 years p.a.	14.5%	10.8%	3.7%
3 years p.a.	3.5%	1.4%	2.1%
5 years p.a.	10.5%	9.4%	1.1%
Since inception p.a. <sup>2</sup>	11.6%	11.0%	0.5%

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 <sup>3</sup>			
	Composite (Net)	Russell Microcap <sup>4</sup>	S&P500
1 month	11.6%	11.9%	1.2%
3 months	14.3%	14.9%	10.1%
1 year	10.6%	12.5%	22.2%
3 years p.a.	(0.1%)	(2.5%)	9.6%
5 years p.a.	10.0%	8.2%	15.0%
10 years p.a.	8.4%	7.5%	13.1%
Inception p.a.	11.9%	6.7%	8.4%

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 statistics<sup>5</sup>

	Fund	Russell Microcap®
Weighted avg market cap	US\$1,481m	US\$672m
Price/sales	1.1x	1.3x
Price/book	2.1x	1.7x
Dividend yield	1.0%	1.5%
Number of securities	96	1,452
Standard deviation	21.9%	22.1%
Sharpe ratio	0.4	0.4
Beta	1.0	
Tracking error	6.4	
Information ratio	0.2	

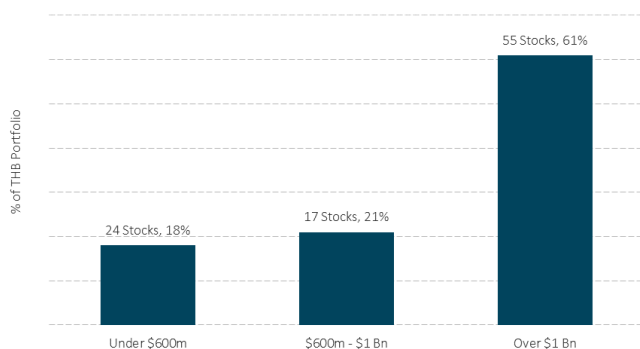
5. Portfolio statistics are reported in USD. Source: THB Asset Management

## Top 10 holdings

Stock	Sector	Portfolio weight
UFP Technologies, Inc.	Health Care	3.2%
Immersion Corporation	Technology	2.9%
ePlus inc.	Technology	2.7%
Hawkins, Inc.	Materials	2.5%
Transcat, Inc.	Industrials	2.2%
Limbach Holdings, Inc.	Industrials	2.1%
BrightSphere Investment	Financials	2.1%
RPC, Inc.	Energy	1.8%
Vericel Corporation	Health Care	1.8%
First Busey Corporation	Financials	1.8%

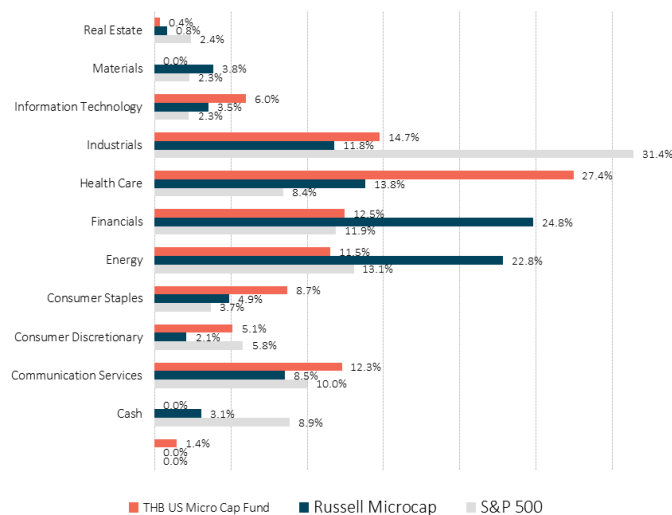
Source: THB Asset Management

## Companies by market capitalisation



Source: THB Asset Management

## Sector allocation<sup>6</sup>



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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