

# THB US Micro Cap Fund

## Quarterly Report – Q1 2024

### Market commentary

The Russell Microcap® Index (the “Index”) returned 9.5% in AUD in Q1 2024.

Health Care (+14.60%) was the best performing sector, followed by Industrials (+10.53%) and Information Technology (+4.37%). Utilities (-14.12%) performed the worst, followed by Real Estate (-8.80%) and Financials (-5.14%).

U.S. Equities delivered another solid quarter of absolute returns following the very strong Q4 2023. All indices were broadly higher during the quarter as positive economic reports assuaged any lingering concerns from the oft repeated recession predictions. Performance was led by the Mega Caps and growth style indices. The ‘Magnificent 7’ was +13% relative to 10.56% for the S&P 500® and the median S&P 500® stock was +7.89%. The performance differentials highlight the sizable market impact being driven by a small number of companies.

Growth indices outperformed Core and Value across The Russell Mid Cap®, Russell Small Cap® and Russell Microcap® Indices which were up 8.60% 5.18% and 4.68% respectively.

Fund details	
Benchmark	Russell Microcap® Index <sup>3</sup>
Inception date	5 September 2014
Fund size	A\$92 million

Fund performance <sup>1</sup> – 31 March 2024			
	Fund <sup>2</sup>	Russell Microcap®	Difference
1 month	4.3%	2.3%	2.0%
3 months	11.1%	9.5%	1.6%
1 year	19.1%	20.9%	(1.8%)
2 years p.a.	10.0%	5.5%	4.5%
3 years p.a.	2.0%	0.2%	1.8%
5 years p.a.	10.2%	8.7%	1.5%
Since inception p.a. <sup>2</sup>	11.4%	10.8%	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 <sup>3</sup> – 31 March 2024			
	Composite (Net)	Russell Microcap <sup>4</sup>	S&P500
1 month	4.4%	2.5%	3.2%
3 months	6.1%	4.7%	10.6%
1 year	17.3%	17.8%	29.9%
3 years p.a.	(2.6%)	(4.9%)	11.5%
5 years p.a.	9.1%	6.9%	15.0%
10 years p.a.	7.0%	6.0%	13.0%
Inception p.a.	11.8%	6.5%	8.3%

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 commentary

The THB US Micro Cap Fund returned 11.1% in AUD (net of fees) in Q1 2024.

The portfolio saw positive contribution from underallocation to Real Estate (+2.11%), stock selection in Health Care (+1.10%), and underallocation to Financials (+0.89%). Negative contribution came mainly from stock selection in Real Estate (-1.86%), underallocation to Health Care (-1.38%), and stock selection in Industrials (-0.52%).

The portfolio's top five performing stocks (from a contribution standpoint) were UFP Technologies, Inc. (Health Care, +1.09%); Vericel Corporation (Health Care, +0.72%); Latham Group, Inc. (Consumer Discretionary, +0.60%); Universal Technical Institute, Inc. (Consumer Discretionary, +0.54%); and Ultra Clear Holdings, Inc. (Information Technology, +0.54%).

The bottom five performing stocks (from a contribution standpoint) were Luna Innovations, Inc. (Information Technology, -0.71%); FIGS, Inc. (Consumer Discretionary, -0.34%); Richardson Electronics, Ltd. (Information Technology, -0.32%); Clean Energy Fuels Corp. (Energy, -0.29%); and Douglas Elliman, Inc. (Real Estate, -0.28%).

The Strategy's companies continue to deploy capital with the goal of increasing shareholder value. They announced 22 acquisitions and 10 stock repurchase authorisations in the first quarter.

One portfolio holding to highlight this quarter is Wabash National Corporation (Wabash). Wabash is a leading manufacturer of semi-truck trailers and liquid transportation systems, experiencing notable growth thanks in part to recent legislation aimed at enforcing stricter fuel standards to curb emissions.

The company designs and manufactures innovative products, such as DuraPlate and Econex, which are trailers using durable but lightweight materials to enhance fuel efficiency and reduce emissions in transportation. Stringent legislation requiring fleets to decrease their fuel use plays directly into the strengths of Wabash National.

Wabash National is leveraging innovative technology to move towards subscription-based models. Wabash has introduced a 'Trailers as a Service' strategy which allows customers to pay subscriptions for access to on-demand parts and services. This has significantly increased their profitability by earning predictable high margin recurring revenues, and this trend that is expected to continue. Wabash has created a technology ecosystem that capitalises on the high-demand trucking parts and services, adding significant value to their customers while increasing profitability.

A significant tailwind for the company is the ongoing trend of domestic reshoring. As more companies move their manufacturing back to the United States, the demand for efficient and sustainable transportation supply chains are rising, providing a backdrop supportive of growth.

## Outlook

The U.S. economy appears to be maintaining a robust level of output throughout the Fed's campaign of higher interest rates. Some measures continue to accelerate, and the debate has shifted from a hard or soft landing to how many rate cuts will be delivered in the coming year. The strong economy, sticky inflation levels and election year politics have likely pushed any rate cuts out further into the future.

Some recalibrations by market participants due to this change would be normal and expected. A pullback in equities and or sectoral rotations would be entirely reasonable. Small dislocations stemming from a strong economy and labor market are not a bad problem to have and should be welcomed.

The resilient economic activity despite Fed increasing rates is the exact opposite of the economic malaise experienced during the QE (Quantitative Easing) Era of experimental monetary policies and zero interest rates. It is also an important reminder that the Fed, while an integral part of the economy, may be less important than other factors such as secular changes, deglobalisation, demographics, regulations, geopolitics, and of course the management teams of corporations.

THB takes comfort in the fact that companies are navigating changes in interest rates and globalisation quite well. Small to medium-sized businesses have the ability to adapt quickly and are highlighting that as they look to capitalise on opportunities in the economy and industries in which they operate.

## Portfolio statistics<sup>5</sup>

As at 31 March 2024		
	Fund	Russell Microcap®
Weighted avg market cap	US\$1,181m	US\$875m
Price/sales	1.2x	1.2x
Price/book	2x	1.7x
Dividend yield	0.7%	1.4%
Number of securities	95	1,477
Standard deviation	21.7%	21.9%
Sharpe ratio	0.4	0.3
Beta	1.0	
Tracking error	6.5	
Information ratio	0.3	

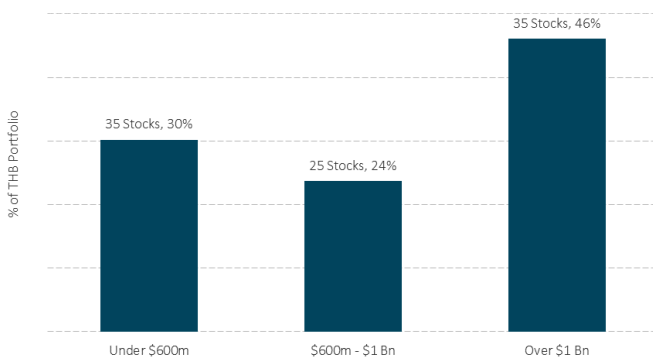
5. Portfolio statistics are reported in USD. Source: THB Asset Management

## Top 10 holdings

Stock	Sector	Portfolio weight
UFP Technologies, Inc.	Health Care	2.9%
ePlus inc.	Technology	2.3%
LeMaitre Vascular, Inc.	Health Care	2.3%
Transcat, Inc.	Industrials	2.2%
Century Aluminum Company	Materials	2.1%
Universal Technical Institute	Consumer Disc	2.0%
Beyond, Inc.	Consumer Disc	2.0%
RPC, Inc.	Energy	2.0%
Vericel Corporation	Health Care	1.9%
Ichor Holdings, Ltd.	Technology	1.9%

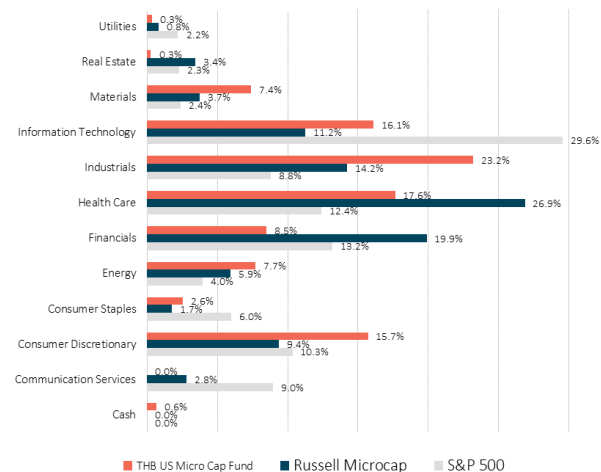
Source: THB Asset Management

## 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.

**BROOKVINE**

**THB**  
Asset Management  
A VICTORY CAPITAL INVESTMENT FRANCHISE

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