



THB US Micro Cap Fund

Monthly Report – May 2018

Market Commentary

The Russell Microcap® Index (Index) returned +7.0% in AUD in May, meaningfully outperforming the S&P 500's +2.2% return.

Information Technology (+12.5%) was the best performing sector, followed by Consumer Staples (+12.1%) and Health Care (+9.3%). Utilities (-0.3%) was the only negative performing sector this month.

Job creation in the US has exhibited continued strength and the unemployment rate fell to just 3.8% in May. Optimism among small businesses remains at historically high levels as indicated by the NFIB Small Business Optimism Index and is a reflection of the strong economy and business-friendly policy changes (e.g. tax reform, deregulation). Industrial production data reached new highs this month, with broad-based contributions from the major industry groups. Meanwhile, Conference Board's consumer confidence index rose again in May. With strong employment and solid consumer sentiment, retail sales data has increased accordingly over the past few months.

Portfolio Commentary

The THB Micro Cap Fund returned 5.9% in AUD (net of fees) in May, underperforming the Index by 1.1%.

Biotechnology/Pharma detracted -1.2% to relative performance, as four of the top 10 Index movers were Biotechnology/Pharma companies. Negative contribution also came from selection in Information Technology (-0.8%), Financials (-0.3%), and Materials (-0.3%), which offset strong selection in Industrials (+0.4%) and Consumer Discretionary (+0.4%).

THB's top five performing stocks (from a contribution standpoint) were USA Technologies (Information Technology, +0.5%), Allied Motion Technologies (Industrials, +0.4%), MYR Group Inc (Industrials, +0.4%), Luminex Corp (Health Care, +0.4%), and Rudolph Technologies (Information Technology, +0.3%).

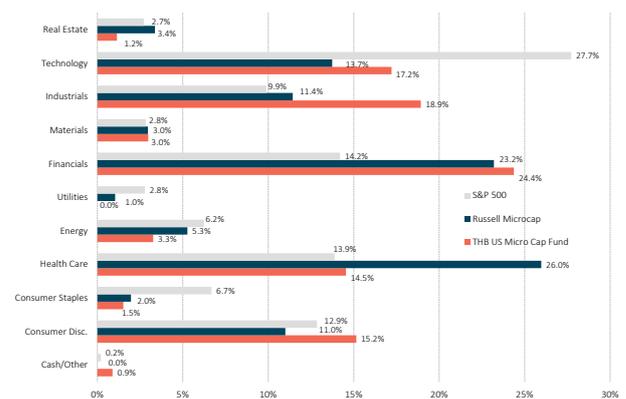
The bottom five performing stocks (from a contribution standpoint) were Del Frisco's Restaurant Group (Consumer Discretionary, -0.2%), UFP Technologies (Materials, -0.2%), Bsquare (Information Technology, -0.1%), Smart Sand (Energy, -0.1%), and Universal Stainless & Alloy (Materials, -0.1%).

The solid economic foundation coupled with business-friendly policy is contributing to a very favourable environment for US equities particularly at the smaller end of the capitalisation spectrum. For example, President Trump signed a bill into law at the end of May that eases stress testing and capital requirements for small and midsized banks, which we believe will encourage higher levels of commercial and residential lending as well as mergers and acquisitions activity.

Fund Details	
Benchmark	Russell Microcap® Index ¹
Inception Date	5 September 2014
Fund Size	A\$263.8million

Net Performance – 31 May 2018			
	Fund ²	Russell Microcap®	Difference
1 Month	5.9%	7.0%	(1.1%)
3 Months	14.7%	13.5%	1.2%
1 Year	19.5%	22.8%	(3.3%)
2 Years p.a.	22.7%	20.1%	2.6%
Since Inception p.a. ³	16.8%	17.7%	(0.9%)

Sector Allocation⁴



- 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.
- 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.
- Fund inception date was 5 September 2014 however inception performance is calculated from 1 October 2014.
- 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 Statistics¹

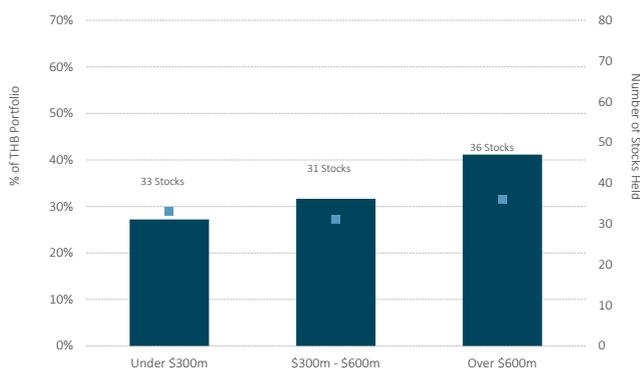
As at 31 May 2018		
	Fund	Russell Microcap®
Weighted Avg Market Cap	\$609m	\$757m
Price/Sales	1.2x	1.2x
Price/Book	2.0x	2.1x
Dividend Yield	0.7%	1.1%
Number of Securities	100	1,480
Standard Deviation	14.1%	14.9%
Sharpe Ratio	1.0	0.9
Beta	0.9	
Tracking Error	5.4	
Information Ratio	0.0	

1. Portfolio statistics are reported in USD.

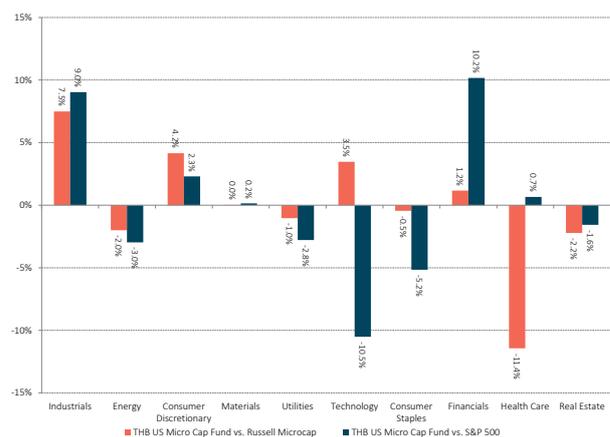
Top 10 Holdings

Stock	Sector	Weight
Old Second Bancorp	Financials	2.6%
Allied Motion Technologies	Industrials	2.0%
MarineMax Inc	Consumer Disc	2.0%
Graham Corp	Industrials	2.0%
Insteel Industries Inc	Industrials	2.0%
First Busey Corp	Financials	1.9%
Callaway Golf Company	Consumer Disc	1.8%
Heritage Financial Corp	Financials	1.8%
LeMaitre Vascular Inc	Health Care	1.7%
Johnson Outdoors	Consumer Disc	1.7%

Companies by Market Capitalisation



Active Sector Positioning



Investment Strategy

Thomson Horstmann & Bryant, Inc. (THB) is an employee-owned boutique investment management firm based in Connecticut specialising in smaller company strategies. 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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