



THB US Micro Cap Fund

Monthly Report – August 2018

Market Commentary

The Russell Microcap® Index (Index) returned 7.2% in AUD in August.

Health Care (+9.4%) was the best performing sector, followed by Information Technology (+8.8%) and Consumer Staples (+6.2%). Energy (-2.6%) was the only negative performing sector this month

The US economy continues to gain momentum as second derivative effects from tax reform and deregulation emerge. The markets have reacted positively with all major indices (S&P 500, Nasdaq, Russell 2000 and Russell Microcap) hitting fresh highs simultaneously this month. Broad based measures of economic health such as the NFIB Small Business Optimism Index and US Consumer Confidence reached multi decade highs in August. The NFIB Optimism Index registered 107.9 which is a 35 year high and 0.10 point shy from the all-time record of 108 reached in 1982. Consumer confidence climbed from 127.9 to 133.4 in August which is the highest level since October 2000 and was evidenced by a surge in retail sales which increased 6.4% from the prior year. Small bank loan growth remains robust with a 9.3% increase over the prior year and illustrates that small businesses are borrowing capital and beginning to follow through with stated expansion plans.

Portfolio Commentary

The THB US Micro Cap Fund returned +7.1% in AUD (net of fees) in August. Strong selection in Energy (+0.5%), Consumer Discretionary (+0.3%), and Financials (+0.3%) positively contributed to the portfolio's performance. Negative contribution came mainly from selection in Health Care (-0.6%) and Industrials (-0.4%), as well as from underallocation to Health Care (-0.3%).

THB's top five performing stocks (from a contribution standpoint) were PAR Technology Corp (Information Technology, +0.7%), Johnson Outdoors (Consumer Discretionary, +0.4%), Renewable Energy Group (Energy, +0.4%), US Physical Therapy (Health Care, +0.4%), and MarineMax Inc (Consumer Discretionary, +0.3%).

The bottom five performing stocks (from a contribution standpoint) were Hill International (Industrials, -0.3%), Luminex Corp (Health Care, +0.3%), Mitek Systems (Information Technology, -0.2%), Insteel Industries (Industrials, -0.1%), and Ultralife Corp (Industrials, -0.1%).

While Trump, Tesla and tariffs occupy the headlines, small businesses (50% of US economic output and 65% of new job creation) remain focused on growth and are extremely optimistic as they lead the US Economy. NFIB President and CEO Juanita Duggan stated, "Expansion continues to be a priority for small businesses who show no signs of slowing as they anticipate more sales and better business conditions." Fed Chair Jay Powell echoed these comments during his annual speech to central bankers, stating, "With solid household and business confidence, healthy levels of job creation, rising incomes, and fiscal stimulus arriving, there is good reason to expect that this strong performance will continue."

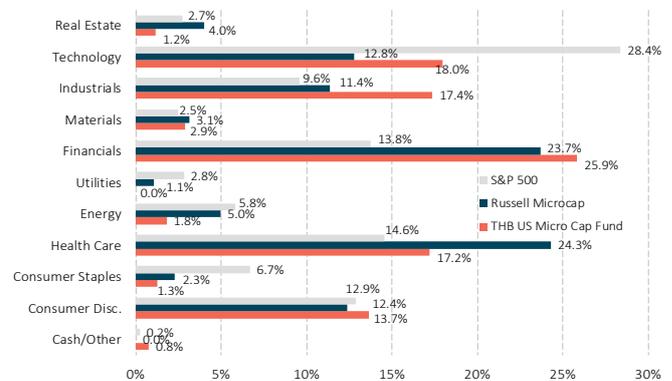
THB believes microcap stocks remain undervalued and will continue to benefit from these strong underlying economic fundamentals.

Portfolio holding KMG Chemicals was acquired by strategic competitor Cabot Microelectronics. THB anticipates increased levels of merger and acquisition activity in the coming quarters.

Fund Details	
Benchmark	Russell Microcap® Index ¹
Inception Date	5 September 2014
Fund Size	A\$300.8 million

Net Performance – 31 August 2018			
	Fund ²	Russell Microcap®	Difference
1 Month	7.1%	7.2%	(0.1%)
3 Months	11.5%	10.5%	1.1%
1 Year	41.5%	39.3%	2.1%
2 Years p.a.	27.4%	24.0%	3.3%
3 Years p.a.	18.3%	14.6%	3.7%
Since Inception p.a. ³	18.9%	19.5%	(0.6%)

Sector Allocation⁴



1. 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.
 2. 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 tables may not sum correctly due to rounding.
 3. Fund inception date was 5 September 2014 however inception performance is calculated from 1 October 2014.
 4. 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 August 2018		
	Fund	Russell Microcap®
Weighted Avg Market Cap	US\$658m	US\$670m
Price/Sales	1.3x	1.0x
Price/Book	2.1x	1.9x
Dividend Yield	0.7%	1.1%
Number of Securities	102	1,536
Standard Deviation	13.8%	14.6%
Sharpe Ratio	1.0	0.9
Beta	0.9	
Tracking Error	5.3	
Information Ratio	0.1	

1. Portfolio statistics are reported in USD.

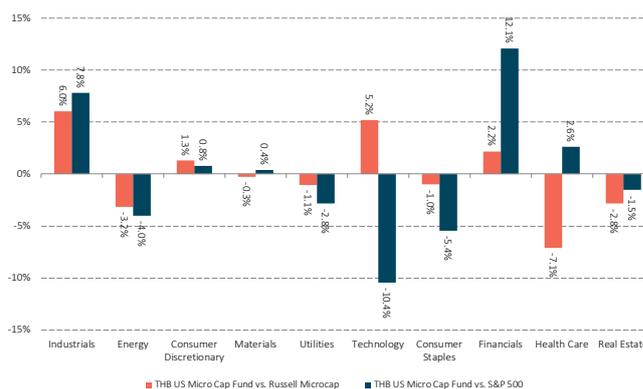
Top 10 Holdings

Stock	Sector	Weight
Old Second Bancorp	Financials	2.4%
PAR Technology Corp	Technology	2.3%
US Physical Therapy	Health Care	2.0%
Graham Corp	Industrials	2.0%
First Busey Corp	Financials	2.0%
Mesa Laboratories Inc	Technology	1.9%
LeMaitre Vascular Inc	Health Care	1.8%
MarineMax Inc	Consumer Disc.	1.8%
Heritage Financial Corp	Financials	1.8%
Luminex Corp	Health Care	1.8%

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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