



Steven Hall

IOOF seeds new international micro-cap fund



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IOOF has become the initial investor in a new international micro-cap fund launched by Brookvine and managed by US specialist Thomson Horstmann & Bryant. International micro-caps represent an interesting new asset class for Australian investors.

The great thing about international micro-caps is that they provide the same entrepreneurial growth opportunities that Aussie ones do, but they have a lot more liquidity. With this new fund, for instance, the average market capitalisation is US\$550 million.

The fund, the 'THB International (ex-USA) Micro Cap Fund', complements the firm's other Australian-domiciled fund launched in 2014, the 'THB US Micro Cap Fund'. Brookvine, which takes positions in the funds it represents in Australia, encouraged the development of the international strategy.

IOOF has invested \$40 million to get the fund up and running for Australian and New Zealand institutional and private wealth investors. In the US, where the strategy was launched in 2015, it has returned 21.3 per cent a year for the period to July 31 just past.

Steven Hall, Brookvine's chief executive, said: "Like its US counterpart, international (non-US) micro-cap stocks have favourable characteristics including a large universe of companies, little-to-no sell side coverage, few investment managers with a credible track record or process and a low correlation to global equities" Steven added.

"We've received strong interest from investors who wish to diversify their equities exposure across markets and beyond large cap stocks.

Christopher Cuesta, THB's chief executive and portfolio manager, said his firm's focus had always been on lesser-known companies. "Our stocks are largely absent from global small and large-cap-oriented portfolios. The new international fund gives investors a low volatility, high quality exposure to an efficient asset class at the early stages of institutionalisation."

The process included a proprietary quality assessment that took into account ESG factors and risks, he said. As a result, the ESG profile of the fund was very appealing.

Hall said global micro caps provided five times the opportunity set of the MSCI World ex. USA Index. It was “vast and inefficient”, he said. “Moreover, adding to the purity of investment, there is minimal, if any, ETF impact in the segment and, given a lack of lendable inventory, little hedge fund investment.”

And few Australian super funds have tapped into the segment. Yet it augments existing large and small-cap allocations with greater return potential and portfolio diversification benefits. Given scale limitations for big funds, it is a segment that offers small-to-mid -size super funds an opportunity to distinguish themselves.

The fund’s return drivers and investment outcomes are closely correlated with those of with private equity. But the strategy has no commitment fee, no ‘J’ curve, no performance fee, does not pay a control premium to acquire its holdings or use leverage to juice up its returns. It also has daily liquidity, Hall said.

The fund also provides exposure to mega trends more prevalent in private equity than large cap equities. Currently about 40 per cent of the fund is invested in e-commerce, green energy, health and wellness, connectivity, cyber security and data analytics. As well, these stocks are often the preferred buyout targets for private equity.

– G.B.

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