

# THB US Micro Cap Fund

## Monthly Report – October 2018

### Market Commentary

The Russell Microcap® Index (Index) returned -9.0% in AUD in October. Utilities (-3.3%) was the best performing sector in a month where all sectors were down, followed by Consumer Staples (-5.1%) and Financials (-7.2%). Health Care (-15.9%) was the worst performing sector, followed by Materials (-15.1%) and Energy (-12.3%).

The US markets all witnessed sharp declines this month with the technology heavy Nasdaq leading the declines down -9.2%. Higher US economic growth jumpstarted by ending restrictive tax and regulatory policies is intact, but also brings about substantial change from the status quo of the prior 30 years. The positive and needed change is causing a recalibration of assumed norms such as perpetually low interest rates and unfavourable US trade agreements. As the market digests higher interest rates and works through uncertainties caused by trade and tariffs, an orderly pullback as seen this month is normal and necessary.

### Portfolio Commentary

The THB US Micro Cap Fund returned -8.0% in AUD (net of fees) in October. Strong selection in Health Care (+0.9%) and Information Technology (+0.5%) positively contributed to the portfolio's performance, as did an underallocation to Health Care (+0.4%). Negative contribution came mainly from selection in Industrials (-0.9%) and Financials (-0.3%), as did an underallocation to Utilities (-0.1%).

THB's top five performing stocks (from a contribution standpoint) were Mitek Systems Inc (Information Technology, +0.4%), MarineMax Inc (Consumer Discretionary, +0.2%), Zix Corp (Information Technology, +0.2%), BioSpecifics Technologies (Health Care, +0.1%), and MYR Group (Industrials, +0.03%).

The bottom five performing stocks (from a contribution standpoint) were LeMaitre Vascular (Health Care, -0.6%), Insteel Industries (Industrials, -0.5%), PAR Technology Corp (Information Technology, -0.4%), Hill International (Industrials, -0.3%), and Allied Motion Technologies (Industrials, -0.3%).

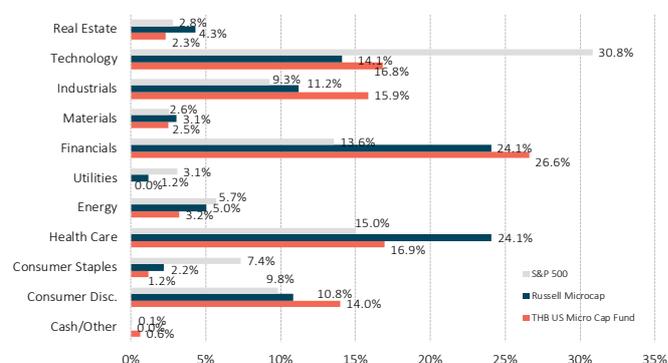
While comforting to have an exact reason to define an event such as last month's pullback, there are sometimes a confluence of things which led up to that moment. Preceding very strong returns, higher interest rates, slowing (but still high absolute) rate of economic growth, geopolitical/trade concerns and the US midterm elections may all be contributing to the market action.

Today, underlying economic conditions remain strong, small business optimism is high, consumers remain confident, financial conditions are very accommodative, and stocks are approximately 10% cheaper than the prior month. October's pullback is creating great buying opportunities as beneath the headline index returns, many companies have experienced correction level performance. For the trailing 1 year, 28% percent of the benchmark companies are down greater than 20%. Numbers like this are rarely witnessed outside of episodic bouts of extreme stress in the markets. Individuals and companies are reacting quickly to the pullback as announced buybacks and insider purchases increase. During the month, 36 companies from THB's universe have announced new repurchase authorisations and over 120 insiders have purchased approximately \$44M worth of their own stock.

Fund Details	
Benchmark	Russell Microcap® Index <sup>1</sup>
Inception Date	5 September 2014
Fund Size	A\$277.7 million

Net Performance – 31 October 2018			
	Fund <sup>2</sup>	Russell Microcap®	Difference
1 Month	(8.0%)	(9.0%)	1.1%
3 Months	(5.2%)	(5.7%)	0.5%
1 Year	8.7%	9.7%	(1.0%)
2 Years p.a.	20.6%	18.8%	1.8%
3 Years p.a.	14.2%	10.3%	3.9%
Since Inception p.a. <sup>3</sup>	14.6%	14.9%	(0.3%)

### Sector Allocation<sup>4</sup>



- 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. Figures in the tables may not sum correctly due to rounding.
- 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 Statistics<sup>1</sup>

As at 31 October 2018		
	Fund	Russell Microcap®
Weighted Avg Market Cap	US\$582m	US\$592m
Price/Sales	1.3x	0.9x
Price/Book	1.8x	1.7x
Dividend Yield	0.8%	1.3%
Number of Securities	101	1,554
Standard Deviation	14.7%	15.5%
Sharpe Ratio	0.7	0.6
Beta	0.9	
Tracking Error	5.2	
Information Ratio	0.1	

1. Portfolio statistics are reported in USD.

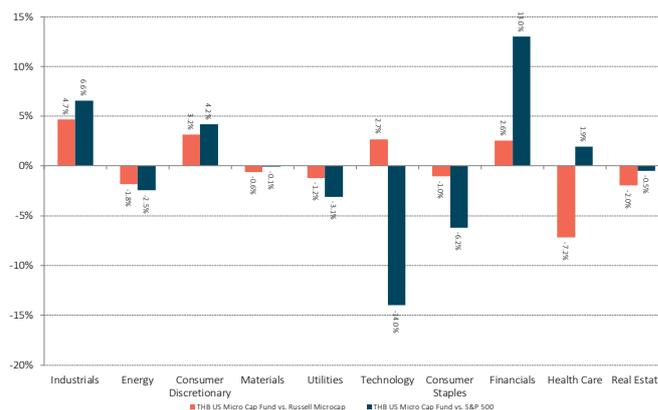
## Top 10 Holdings

Stock	Sector	Weight
Old Second Bancorp	Financials	2.6%
MarineMax Inc	Consumer Disc.	2.2%
Mitek Systems Inc	Technology	2.1%
Luminex Corp	Health Care	2.1%
Graham Corp	Industrials	2.0%
First Busey Corp	Financials	1.9%
Mesa Laboratories Inc	Technology	1.9%
UFP Technologies Inc	Materials	1.9%
Heritage Financial Corp	Financials	1.9%
US Physical Therapy	Health Care	1.8%

## Companies by Market Capitalisation



## Active Sector Positioning



## Investment Strategy

THB Asset Management (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.

**BROOKVINE**

**THB**  
Asset Management

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