

# THB Asset Management

## THB US Micro Cap Fund

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INVESTING IN	BASED IN	FIRM INVESTING SINCE	FUND INCEPTION
US micro cap stocks	Connecticut, USA	1982	2014

35+

YEARS INVESTING AS A FIRM

20+ year

TRACK RECORD IN MICRO CAPS

US\$730m

FIRM AUM AT 31 DECEMBER 2018

12.5% p.a.

SINCE INCEPTION <sup>3</sup>

US\$581m

WEIGHTED AVG MKT CAP

A\$271m

AUM IN AUSTRALIAN FUND  
AS AT 31 JANUARY 2019

100+

STOCKS IN PORTFOLIO

Past performance is not an indicator of future performance.

“Lack of analyst attention in the smallest segment of the sharemarket provides abundant opportunities for outsized returns.”

Christopher Cuesta, CEO and Portfolio Manager, THB

## The THB US Micro Cap Fund invests in a broadly diversified portfolio of US micro cap stocks.

### Why US micro caps?

The world's deepest and broadest source of micro cap stocks is in the US. Over a full market cycle a well-diversified portfolio of high quality micro cap companies run by top calibre management teams should significantly outperform larger cap portfolios. These companies tend to grow faster than their larger counterparts and have more rapid earnings growth. Micro cap investing also presents abundant alpha opportunities. Research coverage is limited, which creates an information void and resulting inefficiency. As well, more than 50% of all US merger and acquisition activity is typically in the size range of micro cap companies and balance sheets appear healthier than at any time in the past 20 years.

### About THB

THB Asset Management (THB) is a dedicated US micro and small cap specialist investment management firm. Founded in 1982 and 100% employee-owned, it has more than 30 years' experience investing in the hard-to-reach, smallest segment of the US share market.

### THB investment approach

THB thinks and acts like a business owner. It seeks to invest alongside 'owner entrepreneurs', pursuing experienced management teams who have extensive experience, a proven track record and a material level of outstanding shares.

THB identifies companies where the market has undervalued its potential based on its operating structure and profitability, failed to recognise inherent value on a cost replacement basis, and/or overlooked synergies available to potential acquirers.

THB's approach is also distinguished by its focus on companies with:

- Strong balance sheets, little debt, high tangible asset ratios, stable profitability and strong corporate governance.
- Well entrenched competitive positions and a unique 'advantage' not fairly valued by the market.
- Obvious near term catalysts for growth and change, including special situations such as spin-offs and recapitalisations.
- Strong secular tailwinds such as improving demand dynamics and structural industry change.
- Ownership catalysts such as positive insider activity, share buy-backs and activist intervention.

### THB US Micro Cap Fund

Net performance (AUD) as at 31 January 2019

	Fund <sup>2</sup>	Russell Microcap <sup>*</sup>	Difference
1 Month	3.1%	6.7%	(3.6%)
3 Months	(4.3%)	(6.1%)	1.8%
1 Year	8.1%	4.1%	4.0%
2 Years p.a.	8.2%	7.2%	1.0%
3 Years p.a.	14.7%	12.3%	2.5%
Since Inception p.a. <sup>3</sup>	12.5%	12.3%	0.2%

Source: Link Fund Solutions

1. The Russell Microcap Index is a capitalisation weighted index of approximately 1,600 stocks that captures the smallest 1,000 companies in the Russell 2000 and up to 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.

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

## THB US Micro Cap Fund

APIR CODE  
ETL0413AU

INVESTMENT MANAGER  
THB Asset Management

RESPONSIBLE ENTITY  
Equity Trustees Limited

FUND INCEPTION DATE  
5 September 2014

BENCHMARK  
Russell Microcap<sup>\*</sup> Index<sup>1</sup>

FUND SIZE  
A\$271.0 million

MANAGEMENT COSTS  
1.25% p.a. (inclusive of GST and RITC), including all investment management fees, responsible entity fees, administration fees, custody fees and other expenses incurred in operating the Fund

PERFORMANCE FEE  
Nil

BUY/SELL SPREAD  
0.30% on applications and 0.30% on withdrawals

INVESTMENT UNIVERSE  
All securities included in the Russell Microcap Index and other permitted securities

CURRENCY HEDGING  
None. The Fund does not hedge its currency exposure. The underlying investments are typically denominated in US dollars

OFFERING DOCUMENT  
Product Disclosure Statement

INVESTOR CLASS  
'Wholesale clients' as defined in the Corporations Act 2001 and Retail Clients investing indirectly via a master trust or wrap account

MINIMUM APPLICATION  
\$250,000

APPLICATIONS  
Daily

WITHDRAWALS  
Daily

## Opportunity

Inefficiencies in smallest segment of the share-market provide abundant alpha opportunities

Potential for outsized returns as lack of analyst attention creates information void

## Strategy

Well diversified and efficient exposure, over 100 stocks

Active management based on market tested investment philosophy

## Reputation

More than 40% of client assets have been with THB for 10+ years

One of the longest established micro cap managers with 35+ years' experience

## Investment process

THB undertakes more than 95% of the research on companies internally. Idea generation comes from a combination of the managers' proactive search for opportunities, market activity and meetings. A quantitative screen is used to flag companies that display active characteristics.

Fundamental analysis is then conducted on each company to develop and test an investment thesis, understand business growth drivers, appraise management and assess value.

THB sets a price target based on a blend of historical, relative and private markets valuations. Price targets are adjusted using an internal 'quality rank' that forces consideration of factors including management, alignment, market dynamics and standard deviation/risk. This metric typically steers THB away from higher volatility, riskier companies.

Capital is then allocated within portfolio constraints and having regard to the market cap and volatility distributions.

**THB leverages a proprietary multi-factor quality assessment when reviewing new opportunities, including management quality, financial strength, industry position, and ESG factors.**

Signatory of:

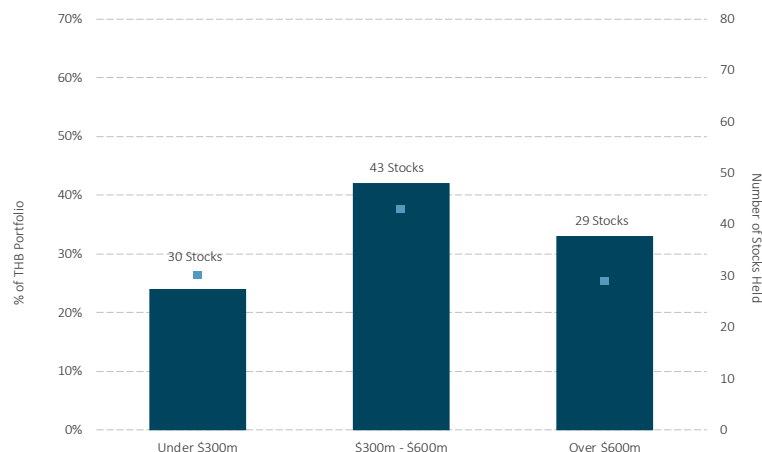


## Top 10 holdings<sup>4</sup>

Stock	Sector	Weight
PAR Technology Corp	Technology	2.6%
Old Second Bancorp	Financials	2.6%
Graham Corp	Industrials	2.3%
Luminex Corp	Health Care	2.2%
Mesa Laboratories Inc	Technology	2.2%
UFP Technologies Inc	Materials	1.8%
First Busey Corp	Financials	1.8%
US Physical Therapy Inc	Health Care	1.8%
Heritage Financial Corp	Financials	1.8%
MarineMax Inc	Consumer Disc	1.7%

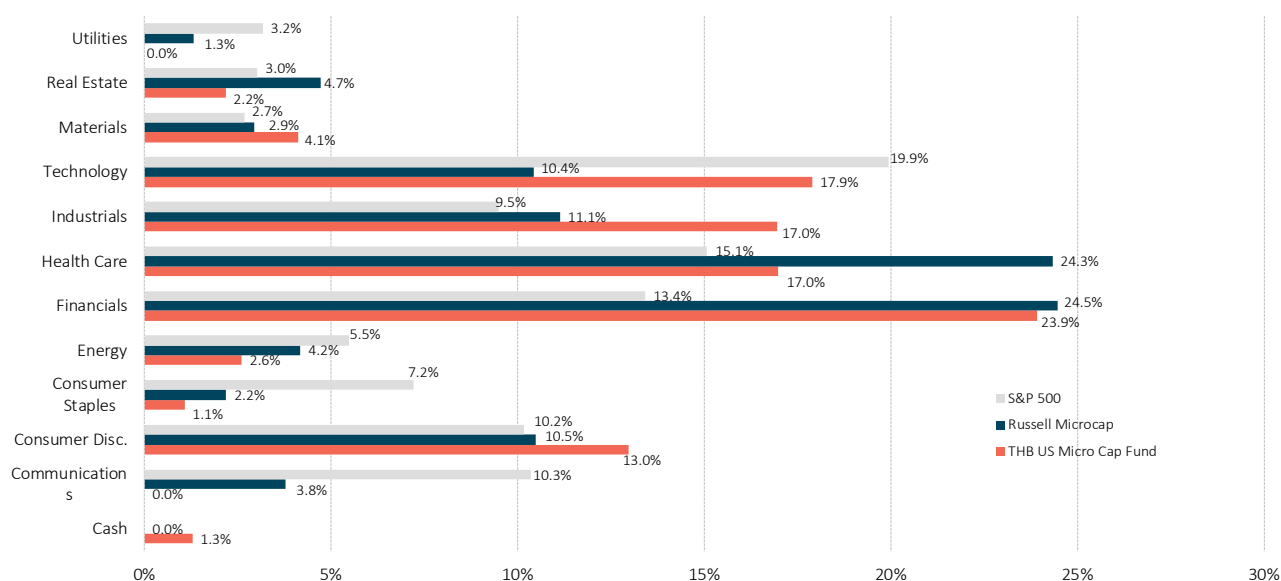
Source: THB Asset Management

## Companies by market capitalisation



Source: THB Asset Management

## Sector allocation as at 31 January 2019<sup>4</sup>



Source: THB Asset Management

## Portfolio statistics in USD as at 31 January 2019

	Fund	Russell Microcap <sup>®</sup>
Weighted Avg Market Cap	US\$581m	US\$594m
Prices/Sales	1.2x	0.8x
Price/Book	1.8x	1.7x
Dividend Yield	0.8%	1.2%
Number of Securities	102	1,557
Standard Deviation	15.2%	16.4%
Sharpe Ratio	0.5	0.4
Beta	0.9	
Tracking Error	5.3	
Information Ratio	0.4	

Source: THB Asset Management

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