

# THB International Micro Cap Fund – Class W

## Quarterly Report – June 2019

### Market commentary

The MSCI World ex USA Smallcap® Index (Index) returned +3.0% (AUD) in Q2.

Information Technology (+7.8%) was the best performing sector, followed by Utilities (+4.1%) and Materials (+3.7%). Energy (-5.2%) was the worst performing sector, followed by Consumer Staples (-2.3%) and Consumer Discretionary (-2.0%).

Israel (+11.2%) was the best performing country, followed by Netherlands (+8.5%) and France (+7.4%). Hong Kong (-6.3%), Denmark (-1.7%) and Norway (-1.4%) were the worst performing countries in the Index.

Global equities rose during Q2 while the ongoing trade negotiations between the US and China remained a key focus for investors. The agreement at the G-20 summit to restart negotiations was expected, but also welcomed by global markets. Concerns regarding overall global growth remain, but resolution of the US/China tariff dispute should have the double benefit of removing a market risk and also increasing business confidence. The US Federal Reserve also pivoted to a more dovish stance and cited the ongoing trade dispute as a concern regarding the US economic expansion.

### Portfolio commentary

The THB International Micro Cap Fund Class W returned +6.8% (net of fees) in Q2, outperforming the Index by 3.8%.

Contributors to the portfolio's performance were positive stock selection in Japan, United Kingdom and Germany. Overallocation to Sweden, France and Germany added to performance. Detractors from performance included stock selection in Canada and Australia, overallocation in Japan and underallocation in Netherlands.

From a sector perspective, positive contribution mainly came from stock selection in Consumer Discretionary, Health Care, Communication Services and overallocation in Information Technology. Stock selection in Materials as well as underallocation to Real Estate were the primary detractors in performance.

THB's top five performing stocks (from a contribution standpoint) were ValueCommerce Co Ltd., (Japan, Communication Services, +0.5%), Eckert & Ziegler AG., (Germany, Health Care, +0.4%), AB Dynamics PLC (United Kingdom, Consumer Discretionary, +0.4%), Dr. Hoenle AG, (Germany, Industrials, +0.4%), GB Group PLC (United Kingdom, Information Technology, +0.3%), and Fixstars Corp (Japan, Information Technology, +0.4%).

The bottom five performing stocks (from a contribution standpoint) were Citadel Group Ltd. (Australia, Information Technology, -0.3%), Aurelia Metals Ltd. (Australia, Materials, -0.2%), Praemium Ltd. (Australia, Information Technology, -0.2%), Linical Co. Ltd. (Japan, Health Care, -0.2%) and Technotrans SE (Germany, Industrials, -0.1%).

Micro cap companies are generally less affected by tariffs and rising trade escalations between China and the US than large cap multinationals. Smaller companies tend to have the majority of their revenues derived from domestic or regional sources while

Fund details	
Benchmark	MSCI World ex USA Small Cap Total Return Index (AUD) <sup>3</sup>
Inception date <sup>2</sup>	23 August 2018
Fund size	A\$68.2 million

Net performance – 30 June 2019			
	Fund <sup>1</sup>	MSCI World ex USA Small Cap®	MSCI World ex USA Micro Cap®
1 month <sup>1</sup>	2.1%	3.2%	1.4%
3 months	6.8%	3.0%	2.9%
Since inception <sup>2</sup>	(3.9%)	(1.3%)	(3.9%)

1. 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.

2. Fund inception date was 23 August 2018 however inception performance for this class is calculated from 7 September 2018.

### Companies by market capitalisation



Source: THB Asset Management

3. The MSCI World ex-USA Small Cap Total Return Index (AUD) captures small cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 2,559 constituents, the Index covers approximately 14% of the free float-adjusted market capitalisation in each country. Source: MSCI

International micro cap companies derive approximately 65% of their revenue from domestic sources. THB's well capitalised portfolio companies continue to deploy capital by repurchasing their own shares and also expanding through acquisitions.

## Stocks in focus

### **Sesa Spa (SES)**

Sesa Spa is the leading operator in the Italian IT industry with a 40+ year operating history. The company operates three divisions (Value Added Distribution, System Integration, Corporate Services) which are benefiting from the digital transformation of the Italian economy. Within the Italian market, Sesa's market share is approximately 30-50% of the various verticals they operate in. Sesa has partnered with major technology companies such as Microsoft, Google, Cisco and Oracle and is able to provide a full suite of offerings and services to their clients. The company works across all industries with complex services such as design, cloud computing, advanced enterprise software, security services, ERP / vertical solutions, digital solutions, and logistics. Sesa is using their strong balance sheet to grow the company through tuck-in acquisitions and also to repurchase their own shares. Sesa cares about the environment and the welfare of their employees as evidenced by initiatives the company has in place. Sesa has installed a 260Kwh solar panel system at their headquarters in Empoli, Italy which is used to provide part of the company's electricity needs. They also have an employee benefit program which aims to support the income, education and well being of their employees.

### **ISRA Vision AG (ISR)**

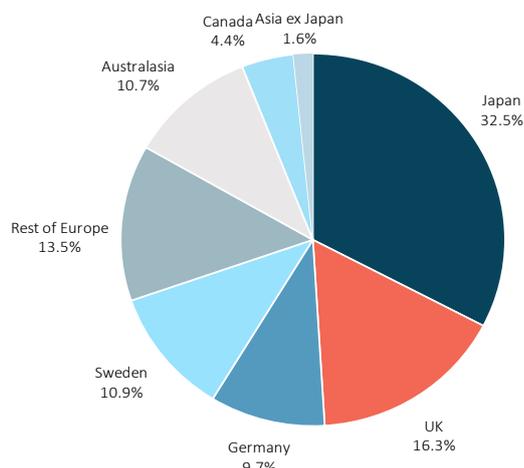
ISRA Vision AG is a market leading company in the factory automation industry. ISRA is based in Germany and has been in operation for 35 years. ISRA develops and sells software and systems for image processing, optics, industrial process skills and robotics. The company produces robot controls used for manufacturing, inspection and quality assurance. ISRA's high-performance components, high-resolution cameras and fast-switching LEDs, enable robotics to handle high precision task such gripping and inline measurement. Machine Vision is a key technology that is applied in nearly all industries. The company benefits from a secular tailwind stemming from an increasing degree of automation of factories, along with fully automated optimisation of productivity and production quality. ISRA's systems also enable customers to increase sustainability in automated manufacturing processes since it supports saving resources and minimising environmental pollution.

## Portfolio statistics<sup>4</sup>

As at 30 June 2019		
	Fund	Benchmark
Weighted avg market cap	US\$499m	US\$2,477m
Price/sales	1.4x	0.9x
Price/book	2.8x	1.4x
Dividend yield	2.0%	2.8%
Number of securities	150	2,563
Standard deviation	14.8%	12.7%
Sharpe ratio	1.1	0.5
Beta	1.1	
Tracking error	5.6	
Information ratio	1.6	

1. Portfolio statistics are reported in USD. Source: THB Asset Management

## Country allocation<sup>5</sup>



Source: THB Asset Management  
4. Portfolio statistics are reported in USD.

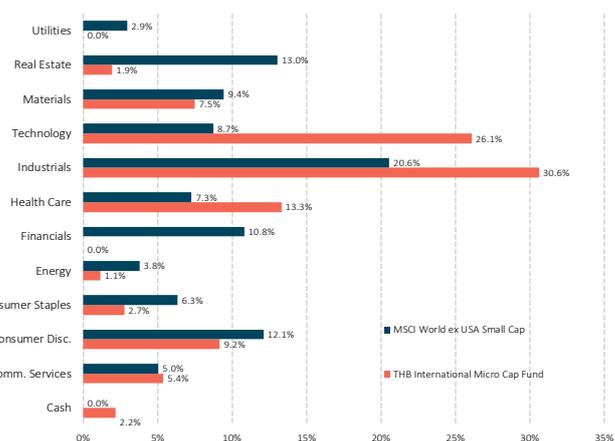
5. Portfolio holdings and allocations are subject to change and should not be considered as investment recommendations to trade individual securities. The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not 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.

## Top 10 holdings<sup>5</sup>

Stock	Sector/Country	Portfolio weight
Eckert & Ziegler	Health Care/Germany	1.4%
Dr Hoenle	Industrials/Germany	1.4%
AB Dynamics	Consumer Disc./UK	1.4%
Nanosonics	Health Care/Australia	1.3%
Judges Scientific	Industrials/UK	1.2%
Fixstars Corp	Technology/Japan	1.1%
Basler	Technology/Germany	1.1%
NEXUS	Health Care/Germany	1.1%
u-blox Holding	Technology/Switzerland	1.1%
HABA Laboratories	Consumer Staples/Japan	1.0%

Source: THB Asset Management

## Sector allocation<sup>5</sup>



Source: THB Asset Management

## Investment strategy

THB Asset Management (THB) is an employee-owned boutique investment management firm based in Connecticut specialising in smaller company strategies. THB's International 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, limited investable options, resource constraints and difficulty in identifying value. THB utilises a disciplined, fundamental approach that blends both qualitative and quantitative methods to construct a well-diversified, low-risk portfolio of companies that possess attractive operating metrics, yet with comparable valuation to the MSCI World ex USA Small Cap® Index.

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Asset Management

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