THB INTERNATIONAL OPPORTUNITIES STRATEGY QUARTERLY COMMENTARY

THB Asset Management®

As of December 31, 2023

EXECUTIVE SUMMARY

The THB International Opportunities Strategy (the "Strategy") seeks long-term capital appreciation over full market cycles through the creation of a focused portfolio of high-quality securities from 22 of the 23 developed markets. Our investable universe contains approximately 4,000 securities, including constituents from the MSCI World ex USA Small Cap and Micro Cap indices. The Strategy typically holds 130–160 securities and has a high active share. THB believes that the international small-cap universe is very inefficient, and that a focused portfolio of high-quality securities in the space can offer strong risk-adjusted returns. THB International Opportunities Strategy outperformed its benchmark, the MSCI World ex USA Small Cap Index, by 2.76% for the recent quarter and was 10.31% behind for the trailing one-year period (net of fees).

MARKET REVIEW

International Developed Market (DM) Equities were broadly higher during the quarter as investors began to price in an end to the central banks' rate tightening cycle and attractive valuations spurred buying.

Economic releases (GDP, inflation, employment) supported the narrative of policy easing. Eurozone and U.K. inflation supported this theme, as did moderating macroeconomic data points. EU finance ministers reached an agreement on more flexible fiscal rules, and the German coalition reached a budget deal.

Small-capitalization stocks started to gain traction in Q4 in the U.S. and Europe after a period of underperformance relative to larger-capitalization companies. In the U.S., the Russell 2000® Index delivered a 14.03% return compared to 11.69% for the S&P 500® Index and 12.56% for the Magnificent Seven. Europe had similar performance, with the MSCI Europe Small Cap Index gaining 14.54%(USD) compared to the MSCI Europe Large Cap Index return of 10.70% (USD) for the quarter.

Japanese Push Toward Better Use of Capital

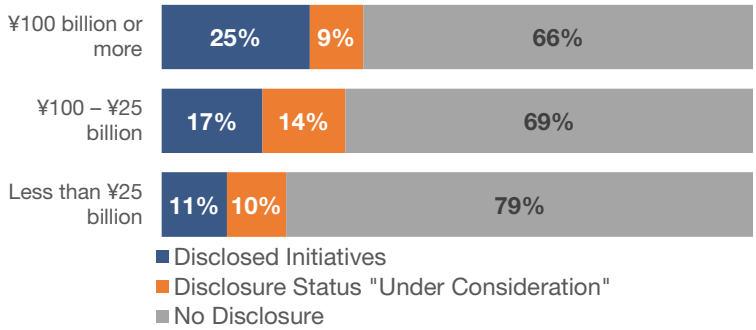
The Tokyo Stock Exchange's push for reform aiming to increase shareholder value was one factor which drove historic gains in the equity markets for 2023. For the year, the Nikkei 225 posted a local currency return of 29.90%, while the TOPIX Small Cap Index was up 24.23%. Policy initiatives such as the Japanese government's tax-free stock investment program for individuals and its 2023 guidelines on corporate M&A are likely to continue to support positive equity performance in Japan going forward.

Earlier this year, the Tokyo Stock Exchange (TSE) requested that listed companies take measures to conduct their businesses with a greater focus on 1) cost of capital, 2) balance sheet profitability, and 3) market valuation. The request specifically points out that the Corporate Governance Code of Japan requires companies to sufficiently consider profitability and to enhance corporate value over the mid-to-long term.

On October 26, the TSE unveiled its plan to publish on January 15, 2024, a list of companies disclosing their action to implement management "conscious of cost of capital and stock price." The TSE intends to compile a list of companies responding proactively to the TSE's request, hoping to encourage those that have not yet acted to take measures.

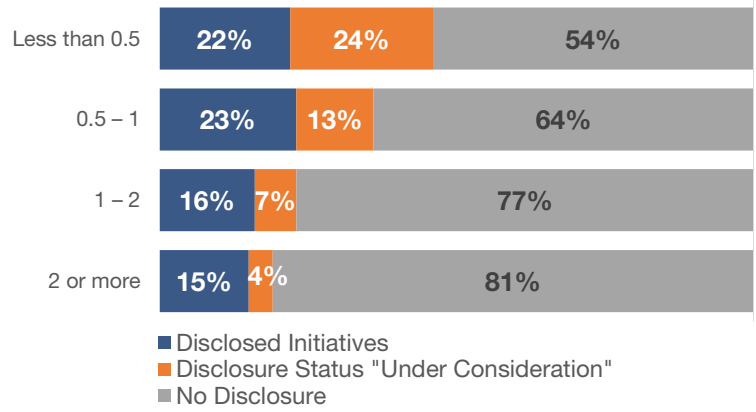
According to TSE data published this October, 379 companies, or 31% of all companies listed on the Prime Market with a fiscal year ending March, had disclosed information on their responses to the TSE's request as of July 2023. Most of the companies that made their answers known were those with a market capitalization of JPY100 billion or more and a P/B ratio of less than one.

Disclosure Status of Japanese Prime Market Companies by Market Cap



Source: Tokyo Stock Exchange

Disclosure Status of Japanese Prime Market Companies by Price to Book Ratio



Source: Tokyo Stock Exchange

As a result, the last weeks of 2023 saw a surge of disclosures by companies with the title "Action to Implement Management That Is Conscious of Cost of Capital and Stock Price" ahead of the TSE's release in January. About 40 came out in December alone, according to Nikkei.

Capital allocation is a key focus of discussion when we speak to portfolio companies. We believe it is a positive development to see that Japanese companies are starting to utilize their cash-rich balance sheets toward share buybacks and acquisitions. We believe that increasing disclosures by larger-capitalization corporations will compel smaller Japanese companies to produce similar plans for enhancing shareholder returns.

Our focus on higher-quality companies that utilize cash flows to enhance shareholder value is reflected in our Japanese holdings. During 2023, approximately 50% of our Japanese holdings have enacted share repurchases and 27% have executed acquisitions to enhance shareholder value. As such, a high percentage of our Japanese holdings have already been aiming to increase shareholder returns in the spirit of the TSE's request. At year-end, 19% of our Japanese companies have formally addressed the TSE request, and we will continue to monitor the various plans. A portfolio holding that is well positioned to benefit from the increasing disclosure requirement in Japan is Avant Group.

Avant Group

Avant Group is a leading Japanese software development and business process outsourcing company specializing in consolidated accounting software and business intelligence tools. The company holds a 43% market share in Japan and serves more than 1,100 customers, including more than half of the TSE-listed top 100 companies. For the past five years, Avant Group delivered strong revenue and EBITDA CAGR of 12% and 16%, respectively. In 2022, the company launched an organizational plan to shift its strategic focus on software-driven growth. The medium-term plan covers the FY24 to FY28 period and aims to double sales volume and triple operating profit.

Its core business platforms include 1) DivaSystem – covers consolidated financial disclosure software and BPO solutions; 2) Avant – offers management decision-making solutions; and 3) Zeal – provides digital transformation in the form of data, AI, and BI solutions. The company has built a strong reputation and expertise in its domains, leading to high switching costs for customers and growing recurring revenue.

A recently released cloud-based solution is expanding its customer TAM (total addressable market) by targeting smaller companies with 5 to 10 subsidiaries. The system runs on the AWS cloud computing platform, under a monthly fee agreement with no customization needed. The solution would help Avant Group to reach its target of 2,000 customers over the medium term.

We believe the company is capable of achieving its medium-term plan. Demand for Avant Group's solutions is driven by the increasing need for corporate governance transparency, the change in reporting standards, and M&A activity, which leads to higher reporting and data complexity within organizations.

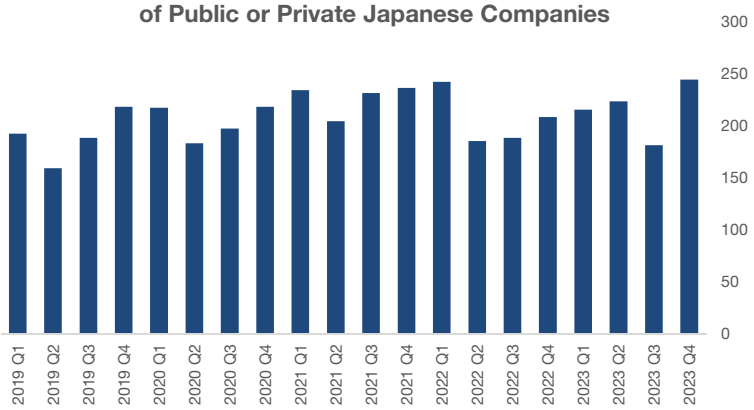
A New Age for Japanese M&A

On June 8, 2023, the Ministry of Economy, Trade, and Industry (METI) published (in draft form) the first revision in nearly two decades to key corporate governance and public takeover guidelines. The previous 2005 Guidelines were formed under the premise that takeover defense policies should be used to guard against acquisitions in order to protect "corporate value," leading to excessive defense tactics deployed toward unsolicited takeover offers. The 2023 Guidelines expand on the definition of "corporate value" to include more traditional metrics such as enterprise value with the intent to encourage more consolidation in the market and create global leaders. The government advises corporate leaders to first consider the quantitative definition, taking into consideration shareholder value creation.

Additionally, the pressure on the listed firms in response to the TSE push toward capital allocation is likely to spur higher corporate activity in the coming years not only domestically in Japan but also internationally.

Financial conditions remain attractive, supported by low interest rates and the cheaper Yen. While most global central banks are seemingly near the end of their rate-hike cycles, the Bank of Japan has kept its ultra-loose monetary policy settings intact in an effort to support economic growth.

Number of Announced or Completed Takeovers of Public or Private Japanese Companies



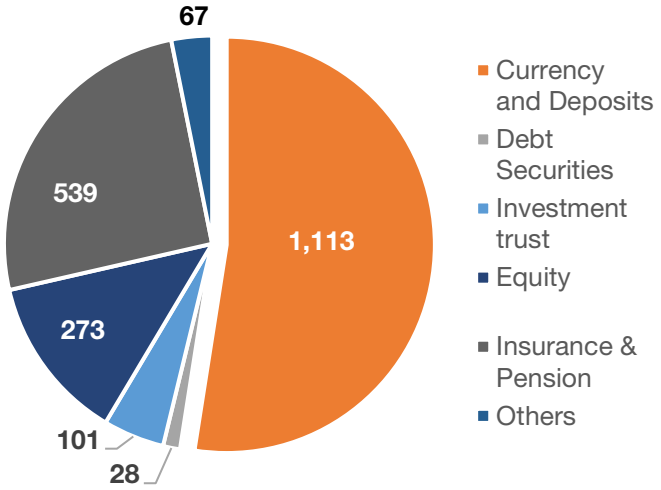
Source: Bloomberg

THB seeks to invest in companies with strong balance sheets and the ability to self-fund both organic and inorganic growth. We believe that our holdings are well positioned to capitalize on the ongoing policy reforms in Japan and drive shareholder value by deploying excess capital in attractive growth opportunities.

"New Capitalism" Initiative

Japanese households held a record 2,121 trillion yen in financial assets as of September 2023 (latest available data), according to the Bank of Japan. Fifty-two percent was held in currency and deposits. Prime Minister Fumio Kishida's "new capitalism" scheme looks to unlock the nearly $14 billion sitting in cash to boost household wealth and asset holdings by helping households invest in riskier assets such as stocks. A new revised NISA (Nippon Individual Savings Account) plan, starting in January 2024, is designed to accomplish this goal. NISA is a Japanese government tax-free stock investment program for individuals, similar to a 401(k) plan in the U.S., that offers tax benefits and portability.

Financial Assets Held by Japanese Households as of September 2023



Source: Bank of Japan

The new NISA program expands annual investment limits and extends the tax-exempt period from up to 20 years to an indefinite term. Under the new framework, growth and "tsumitate" (savings) will be replacing the prior general and "tsumitate" programs. The annual investment limit will be doubled from 1.2 million yen to 2.4 million yen (about USD 16,500) for the Growth Investment NISA and tripled from 0.4 million yen to 1.2 million yen (about USD 8,700) for the Tsumitate NISA. The tax-exempt lifetime investment limit will be raised to 18 million yen (about USD 124,000), of which the Growth Investment element can comprise up two-thirds (12 million yen).

In 2022, the government set goals to double NISA accounts in 5 years. The number of NISA accounts increased 7.8% from the end of December 2022 to about 19.41 million at the end of June of 2023, according to data from Japan's Financial Services Agency. The new NISA program could significantly boost individual investments in the equities markets and support multi-year flows in the Japanese markets.

BENCHMARK PERFORMANCE

The MSCI World ex USA Small Cap Index (the "Index") returned 10.60% (USD) in 4Q 2023. Real Estate (+15.83%) was the best performing sector in 4Q, followed by Information Technology (+13.70%) and Materials (+11.59%). Energy (-1.48%) was the worst performing sector, followed by Consumer Staples (+7.62%) and Consumer Discretionary (+8.67%).

PORTFOLIO PERFORMANCE & POSITIONING

The THB International Opportunities Strategy returned 13.36% (net of fees) in Q4, outperforming the Index by 276 bps.

Contributors to the portfolio's performance included stock selection in Japan, stock selection in Canada, and overallocation to Switzerland.

Detractors from performance included stock selection in Austria, stock selection in Norway, and underallocation to France.

From a sector perspective, primary contributors to performance mainly came from overallocation to Information Technology, stock selection in Financials, and stock selection in Information Technology. Underallocation to Financials, underallocation to Real Estate, and stock selection in Consumer Discretionary were primary detractors from performance this quarter.

THB's top five performing stocks (from a contribution standpoint) were Micronics Japan Co. (Japan, Information Technology, +0.66%), iFast Corporation (Singapore, Financials, +0.51%), Horiba (Japan, Information Technology, +0.50%), Comet Holding (Switzerland, Information Technology, +0.47%), and Troax Group (Sweden, Industrials, +0.41%).

The bottom five performing stocks (from a contribution standpoint) were Nakanishi (Japan, Health Care, -0.33%), AB Dynamics (United Kingdom, Consumer Discretionary, -0.23%), AZ-COM Maruwa Holding (Japan, Industrials, -0.21%), Shoei Co. (Japan, Consumer Discretionary, -0.19%), and Xvivo Perfusion (Sweden, Health Care, -0.19%).

The Strategy's companies continue to deploy capital with the goal of increasing shareholder value. They announced nine share repurchase authorizations and 36 acquisitions in the fourth quarter.

OUTLOOK

We continue to hold our positive outlook on smaller-capitalization companies as valuations are very attractive, inflation and interest rates appear to be peaking, and structural reforms such as those taking place in Japan could be very constructive for equity returns. Many corporations in the developed markets recognize the disconnect between their stock valuations and strategic value and are taking action. In both Japan and Europe, increased share repurchase activity is taking place, which we believe is a positive development.

As we expected, exiting the zero-interest-rate era has swiftly altered the fortunes of certain companies and industries, particularly those heavily reliant on external financing. Although most of these entities might not align with our investment policy, some attractive opportunities could arise. Additionally, our high-quality companies can utilize cash balances and cash flows to acquire weaker, less-capitalized competitors. In aggregate, our portfolio companies have approximately $6.5 billion net cash on their balance sheets. We believe that these cash balances can be used to increase shareholder returns via repurchase activity, acquisitions, and increased dividends.

Top 10 Holdings (%)
as of December 31, 2023

Holding	Rep. Account
COMET Holding AG	1.39
Horiba , Ltd.	1.36
Kardex Holding AG	1.21
Pason Systems Inc.	1.21
MMA Offshore Limited	1.20
SeSa S.p.A.	1.18
Trican Well Service Ltd.	1.18
Micronics Japan Co., Ltd.	1.16
iFAST Corporation Ltd	1.14
u-blox Holding AG	1.13

Region Allocation (%)
as of December 31, 2023

Region	Rep. Account
Asia-Pacific	47.90
Europe	44.95
N. America	6.36
Cash	0.79

Performance
Average Annual Returns (%) as of December 31, 2023

THB International Opportunities Composite	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception (April 2015)
Gross of Fees	13.72	3.59	3.59	-5.37	6.78	–	9.14
Net of Fees	13.36	2.31	2.31	-6.54	5.48	–	7.85
MSCI World ex USA Small Cap Index (Net)	10.60	12.62	12.62	-0.20	7.05	–	5.49

Past performance cannot guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings.Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

All investments carry a certain degree of risk, including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

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Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

The THB International Opportunities Composite contains fully discretionary international equity accounts and for comparison purposes is measured against the MSCI World ex USA Small Cap Index. The returns for the MSCI World ex USA Small Cap Index presented are net of withholding taxes. As of January 1, 2016, the composite name changed from "International Composite" to "International Opportunities Composite." Prior to January 1, 2016, the benchmark was the MSCI World ex USA Micro Cap Index. This benchmark change was made to more accurately reflect the investment strategy of the composite. The minimum account size for this composite is $100,000. The objective of the composite is to seek long-term capital appreciation over full market cycles by investing primarily in companies that THB feels are undervalued, exhibit lower risk characteristics, and have superior operating metrics. The portfolio typically holds 130–160 securities and has a high active share.

The MSCI World ex USA Small Cap Index captures small-cap representation across 22 of 23 developed markets (DM) countries (excluding the United States). With 2,530 constituents, the index covers approximately 14% of the free-float-adjusted market capitalization in each country.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index. **Past performance does not guarantee future results.**

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