

Portfolio Team



Christopher Cuesta, CFA
Principal, CEO
Portfolio Manager
22 years of experience



Keith Dickinson, CFA
Principal
Portfolio Manager
16 years of experience

Portfolio Objective

THB Micro Cap seeks long term capital appreciation over full market cycles by using a disciplined, valuation based approach. We invest primarily in companies within the Russell Microcap Index that we believe are trading below their intrinsic value and have superior operating metrics. We utilize a proprietary Quality Assessment and Risk Grading during the research and portfolio construction processes. The strategy will typically hold 100-125 securities and have a high active share.

Our Firm

Founded in 1982, we are an employee-owned boutique firm that specializes in Micro, Small, Mid Cap, and International niche equity strategies. Our accomplished team of nine investment professionals constantly strives to find the best investment ideas to produce outstanding results. With a robust research team and a deep bench, we pride ourselves on our entrepreneurial culture and our commitment to innovation and improvement.

Strategy Details

Benchmark	Russell Microcap
Inception	June 1998
Strategy Size	\$786 million

	THB	Index
Beta	0.92	—
Tracking Error	7.28	—
Sharpe Ratio	0.70	0.40
Info Ratio	0.87	—
Std Deviation	21.2%	21.7%

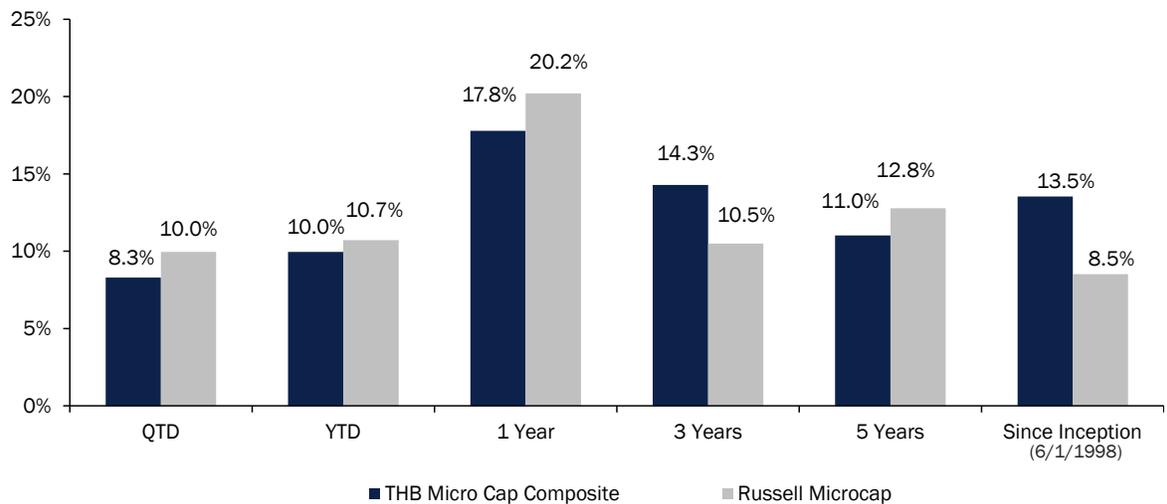
Market Commentary

The Russell Microcap Index (Index) returned 10.0% in 2Q, outperforming the S&P 500 (3.4%) by nearly 660 basis points. Strength during the quarter was broadbased, with each of the Index sectors generating positive returns. Energy (+26.4%) was the best performing sector, followed by Consumer Staples (+21.9%) and Technology (+13.3%). Materials was the weakest performing sector (+6.0%), followed by Financials (+6.4%).

The US economy continues to strengthen, with the Fed raising its benchmark short-term rate 25 basis points in June while stating economic growth has been “rising at a solid rate,” an upgrade from “moderate” in May. In addition, the Atlanta Federal Reserve GDPNow forecast is estimating an annualized 4.1% GDP growth rate in the second quarter, a level of GDP growth not witnessed since Q3 2014.

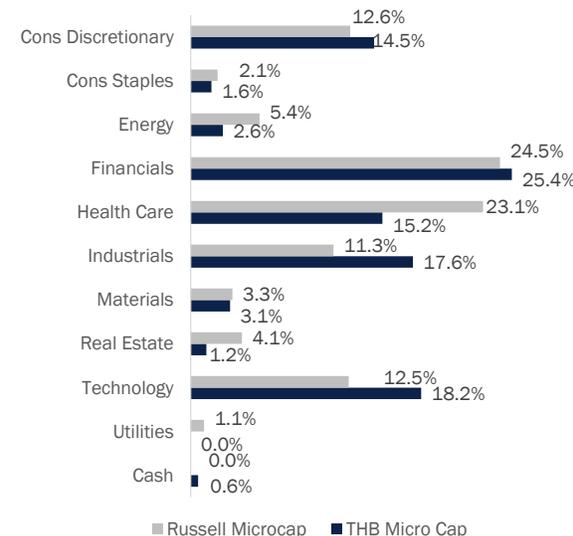
Importantly, small business plans to expand in the US continue to surge according to the National Federation of Independent Business survey despite US tariffs and retaliatory measures from China and the EU dominating news headlines in recent weeks. Smaller US-centric companies (and our portfolio companies) should experience minimal direct impact from trade disruption since ~90% of microcap company revenues are generated domestically and rely little on exporting for revenue growth. These same companies are also in a good position to absorb potential cost increases as consumer sentiment is high and lower personal income taxes related to tax reform should help support a healthy US consumer. Ultimately, the stimulative effects of tax reform should far outweigh the potential negative impact from tariffs on smaller domestically focused companies, which may partly reflect the recent outperformance of the Russell Microcap Index vs the S&P 500.

Performance Snapshot (Net of fees)



1. Periods end 6/30/18 and are net of fees and presented in USD. Past performance is not indicative of future results. Periods greater than 1 year are annualized. Returns represented include reinvestment of dividends and other income.

Sector Weightings

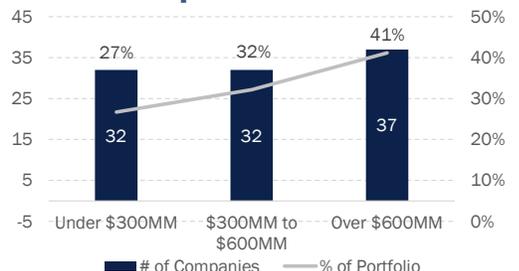


Active Management, High Active Share

91.2%

Active Share vs Russell Microcap Index

Market Cap Distribution



Our Commitment

THB is committed to building long term partnerships with our clients by providing investment products that seek to help achieve their long term goals.

Our entrepreneurial culture and boutique structure allow us to embrace the unique needs and preferences of our clients.

Our sole focus is to provide excellent stewardship of our clients' capital over full market cycles.

We are passionate about, and committed to, our thoughtful and disciplined process of investing in micro, small, and mid cap companies.

We will constantly measure and seek to control risk while not straying from our stated investment mandates.

All of our clients will have full transparency and will be handled with the highest levels of integrity.

THB Asset Management claims compliance with the Global Investment Performance Standards (GIPS®). More information on calculation methodology and a list showing every holding's contribution to overall performance during that period, and a list of composite descriptions and/or presentation that complies with the GIPS standards available upon request.

For more information on calculation methodology and a list showing every holding's contribution to overall performance during that period, or to receive a list of composite descriptions and/or presentation that complies with the GIPS standards, contact Steve Lee at (203) 992-4326 or slee@thbinc.com



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Portfolio Commentary

The THB Micro Cap Composite returned +8.3% (net of fees) in 2Q, underperforming the Index by 1.7%.

Positive contribution came mainly from stock selection in Consumer Discretionary (+0.3%), Information Technology (+0.2%), and Health Care (+0.2%). Negative contribution came mainly from selection in Energy (-0.6%), Financials (-0.4%), and Consumer Staples (-0.2%). Underallocation in Energy (-0.2%) was also a primary detractor.

THB's top five performing stocks (from a contribution standpoint) were Mesa Laboratories (Information Technology, +0.7%), USA Technologies (Information Technology, +0.6%), Johnson Outdoors (Consumer Discretionary, +0.5%), Luminox Corp (Health Care, +0.5%), and Fiesta Restaurant Group (Consumer Discretionary, +0.5%). The bottom five performing stocks (from a contribution standpoint) were Anika Therapeutics (Healthcare, -0.6%), GP Strategies (Industrials, -0.2%), Culp Inc (Consumer Discretionary, -0.2%), Del Frisco's Restaurant Group (Consumer Discretionary, -0.2%), and Bsquare (Information Technology, -0.2%).

Our microcap strategy marked its 20-year anniversary in June. Over that period, we have witnessed many market cycles, natural disasters, Fed rate actions, political changes, wars, recessions, and even financial crises. Notwithstanding these many periods of disruption and uncertainty, the strategy has annualized 15.0% (gross of fees) since inception, a return we believe is a testament to the inefficiencies of the asset class coupled with our philosophy and passion investing in small companies.

The next 20 years will surely bring about new versions and forms of uncertainty, but we will once again lean on our philosophy and lessons learned during our two decades of managing our strategy to prosper. As we look towards the future, the current environment for US microcaps is as favorable as it has ever been during our history managing the strategy. The strong US economy, tax reform, deregulation, healthy environment for merger and acquisition activity (including the repatriation of \$300B in cash in Q1), and improved small business optimism are all positive tailwinds for the US-centric companies in which we invest.

Portfolio & Benchmark Characteristics

Characteristics	THB Micro Cap	Russell Microcap
Holdings	101	1,548
Market Cap (\$mil)	621	595
Dividend Yield	0.7	1.1
LT Debt/Capital	18.9	28.4
Price/Earnings	18.8	—
P/E Forward	17.8	—
Price/Book	2.0	1.9
Price/Sales	1.3	1.0
EV/EBITDA	12.5	—
EV/Sales	1.2	1.0
Operating Margin	10.1	1.6
FCF Yield	1.6	(3.1)
ROE	7.2	—
ROIC	5.7	—

Corporate Activity

THB Micro Cap - Trailing 12 months

Number of Companies	101
Companies with Share Repurchases	47
Companies that Paid Dividends	46
Amount of Share Repurchases	\$314MM
Amount of Dividends Paid	\$355MM
Total Capital Returned to Shareholders	\$669MM
Number of Acquisitions	59
Value of Acquisitions	\$3.5B
Portfolio Holdings Acquired	3

Our portfolio companies are returning a healthy amount of capital back to shareholders via repurchases and dividends, illustrating their financial strength and the variety of options available to them to enhance shareholder wealth.

1.Periods end 6/30/18 and are net of fees and presented in USD. Past performance is not indicative of future results. Periods greater than 1 year are annualized. Returns represented include reinvestment of dividends and other income. 2. "Portfolio & Benchmark Characteristics" and "Portfolio Sector Weightings" information is supplemental. 3.Wilshire U.S. Micro-Cap Index used prior to June 2000; Russell Microcap Index used thereafter. THB Asset Management is a registered investment advisor specializing in smaller company strategies. Registration with the US Securities and Exchange Commission does not imply a certain level of skill or training. The focus on the Micro Cap Composite is on smaller-micro capitalization companies in the US market that are under-researched and over-looked. The benchmark is the Russell Microcap Index. 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. The index comparisons herein are provided for informational purposes only and should not be used as the basis for making an investment decision. There are significant differences between client accounts and the indices referenced including, but not limited to, risk profile, liquidity, volatility, and asset composition. You cannot invest directly in an index. 4. 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.