

Portfolio Team



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



Keith Dickinson, CFA
Principal
Portfolio Manager
16 years of experience



Manish Maheshwari, CFA
Principal
Asst Portfolio Manager
20 years of experience

Portfolio Objective

THB Mid Cap seeks long term capital appreciation over full market cycles by investing in a concentrated group of companies within the Russell Midcap Index that THB believes are undervalued, display lower volatility, and have superior operating metrics. The strategy will hold exactly 30 securities and have 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 Midcap
Inception	February 2014
Strategy Size	\$2.1 million

	THB	Index
Alpha	1.3	
Beta	0.91	—
Tracking Error	3.71	—
Sharpe Ratio	1.19	1.04
Info Ratio	0.34	—
Std Deviation	9.8%	10.1%

Market Commentary

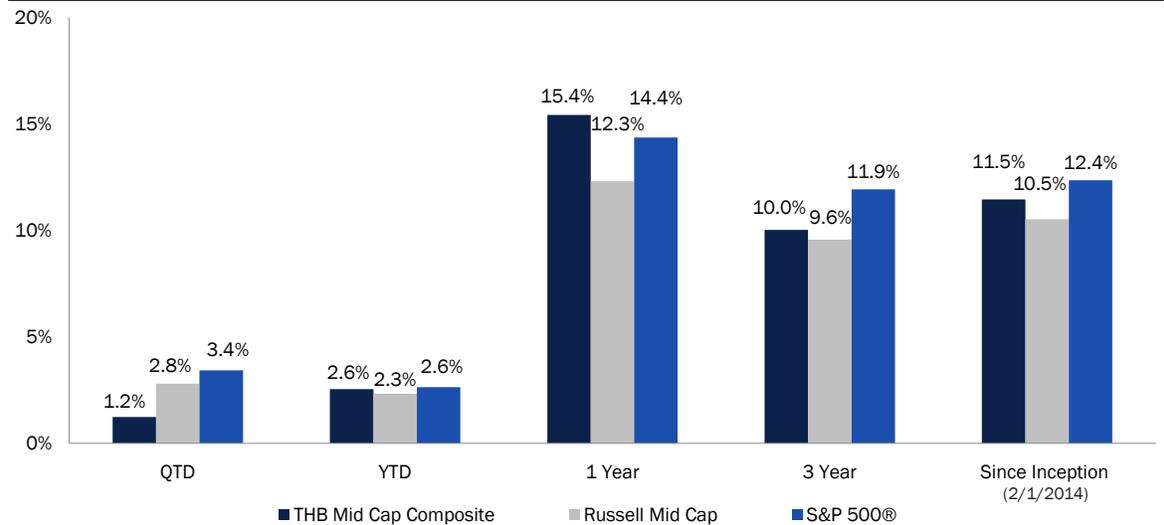
The Russell Midcap® Index (Index) returned 2.8% in 2Q.

Energy (+16.7%) was the best performing sector, followed by Real Estate (+8.1%) and Utilities (+4.5%). Industrials (-2.4%) was the worst performing sector, followed by Financials (-2.3%) and Consumer Staples (-0.6%).

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.

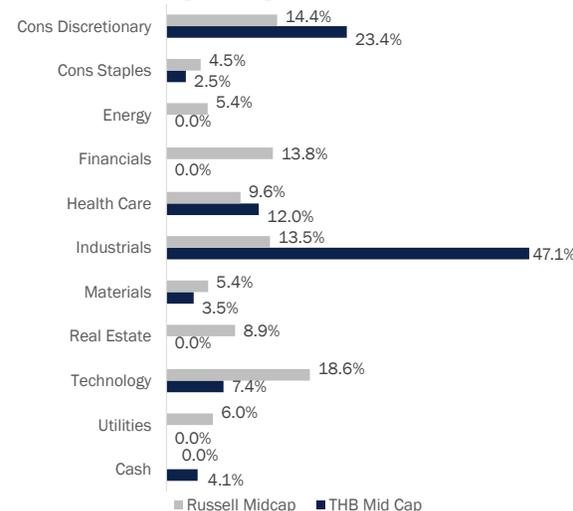
Importantly, small business plans to expand in the US continue to surge according to the National Federation of Independent Business survey despite US tariffs and retaliatory measures from China and the EU dominating news headlines in recent weeks. US-centric companies (and our portfolio companies) should experience minimal direct impact from trade disruption since many of these 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 domestically focused companies.

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

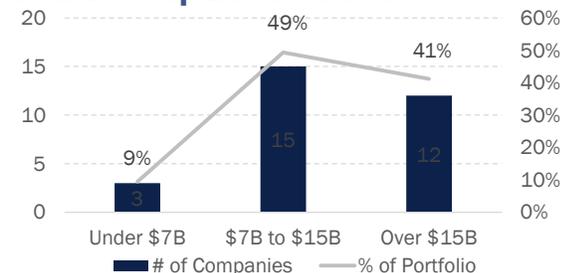


Active Management, High Active Share

94.5%

Active Share vs Russell Midcap 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 Mid Cap Composite returned 1.2% (net of fees) in 2Q.

Positive contribution came from strong stock selection in Industrials (+1.8%) and Consumer Staples (+0.2%), as well as underallocation to Financials (+0.8%). Negative contribution came from overallocation to Industrials (-1.7%) and underallocation to Energy (-0.7%), as well as from selection in Consumer Discretionary (-0.7%).

The top five performing stocks (from a contribution standpoint) were Copart Inc (Industrials, +0.5%), Advance Auto Parts (Consumer Discretionary, +0.5%), Laboratory Corp of America (Health Care, +0.4%), Kirby Corp (Industrials, +0.3%), and Ross Stores Inc (Consumer Discretionary, +0.3%).

The bottom five performing stocks (from a contribution standpoint) were LKQ Corp (Consumer Discretionary, -0.5%), Dentsply Sirona Inc (Health Care, -0.3%), Parker Hannifin (Industrials, -0.3%), Fastenal Co (Industrials, -0.2%), and Smith Corp (Industrials, -0.2%).

As we look towards the future, we believe the current environment for US mid caps looks very favorable. The strong US economy, tax reform, deregulation, healthy environment for merger and acquisition activity (including the repatriation of \$300B in cash in 1Q), and improved small business optimism are all positive tailwinds for the US-centric companies in which we invest.

Portfolio & Benchmark Characteristics

Characteristics	THB Mid Cap	Russell Midcap
Holdings	30	793
Market Cap (\$bil)	14.9	14.8
Dividend Yield	0.9	1.7
LT Debt/Capital	28.5	39.7
Price/Earnings	22.0	18.9
P/E Forward	18.1	17.3
Price/Book	4.4	2.6
EV/EBITDA	14.7	13.0
EV/Sales	2.5	2.2
Operating Margin	15.4	12.7
FCF Yield	4.2	3.3
ROE	20.9	12.0
ROIC	15.3	8.4

Corporate Activity

THB Mid Cap - Trailing 12 months

Number of Companies	30
Companies with Share Repurchases	24
Companies that Paid Dividends	19
Amount of Share Repurchases	\$7.4B
Amount of Dividends Paid	\$3.4B
Total Capital Returned to Shareholders	\$10.8B
Number of Acquisitions	51
Value of Acquisitions	\$7.5B

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. 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 of the strategy is on mid-capitalization companies in the US market that are under-researched and over-looked. The benchmark is the Russell Midcap Index. The Russell Midcap Index is a capitalization weighted index of the smallest 800 companies in the Russell 1000. 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. 3. 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.