

## 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	\$781 million

	THB	Index
Beta	0.92	—
Tracking Error	7.24	—
Sharpe Ratio	0.70	0.40
Info Ratio	0.87	—
Std Deviation	21.1%	21.6%

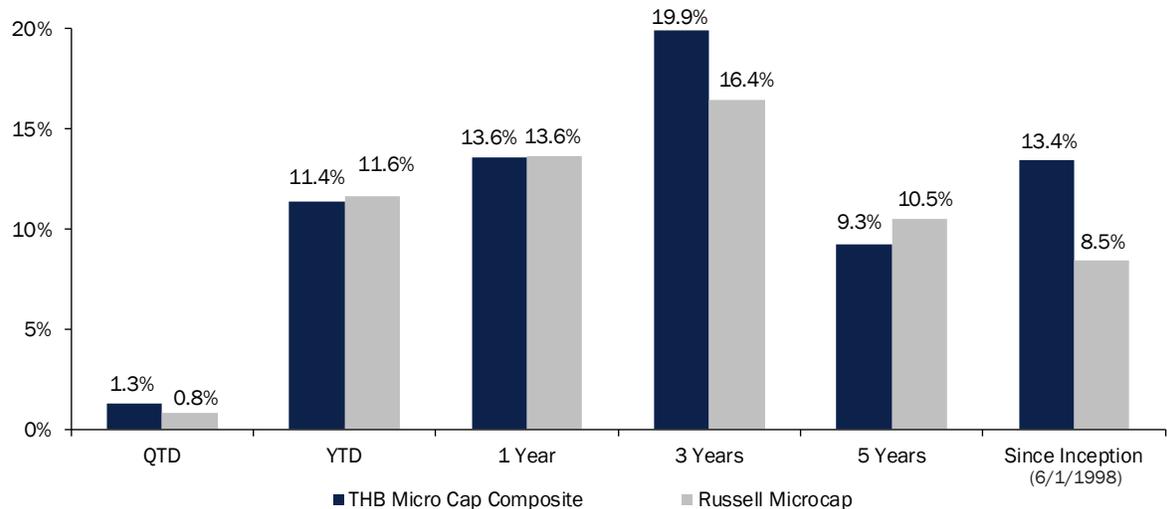
## Market Commentary

The Russell Microcap® Index (Index) returned +0.8% in 3Q.

Consumer Staples (+10.8%) was the best performing sector this quarter, followed by Health Care (+6.0%) and Utilities (+3.3%). Energy (-5.7%) was the worst performing sector, followed by Financials (-2.8%) and Consumer Discretionary (-2.3%).

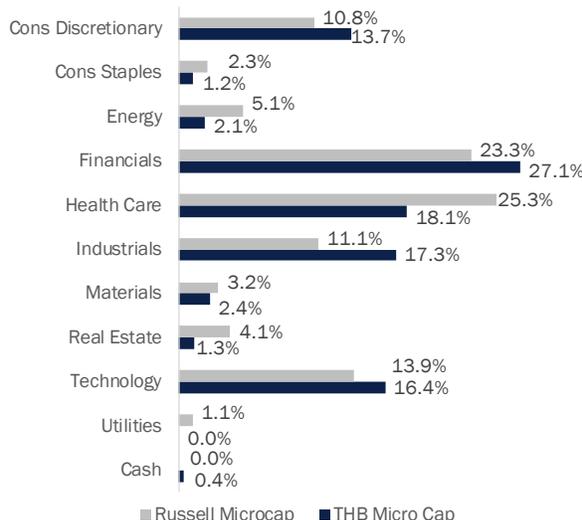
In the third quarter of 2018, second derivative effects from tax reform and deregulation efforts have emerged as multiple surveys of optimism transitioned into hiring, capital expansions, spending and acquisitions. Although tariffs remain a concern in the media and in some CEO surveys, the true impact to the US economy remains muted. The NFIB Small Business optimism survey reached an all-time high in September signaling that the largest portion of the US economy is more optimistic now than at any point of the 45-year history of the survey. The robust growth in loans from small banks, growing 9% year over year is an indication that small businesses have access to capital and are utilizing it to forge ahead with expansion plans. Consumer spirits, supported by the strong economy and job growth, increased as the Conference Board Consumer Confidence Index hit an 18-year high in August. Beneath the broad headlines, signals such as record level Class 8 truck orders, robust small bank loan growth, surging retail sales, and increasing industrial capital expansions support the view of increasing momentum in the US economy.

## Performance Snapshot (Net of fees)



1. Periods end 9/30/18 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

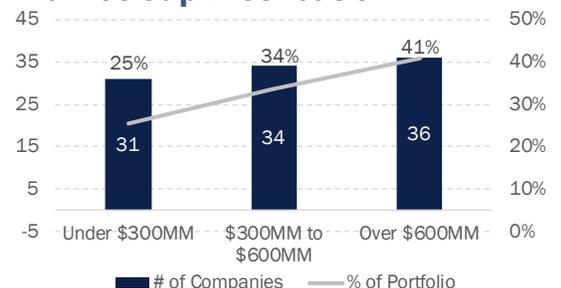


## Active Management, High Active Share

# 91.4%

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 [marketing@thbinc.com](mailto:marketing@thbinc.com) or (203) 653-7060.



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## Portfolio Commentary

The THB Micro Cap Composite returned +1.3% (net of fees) in 3Q, outperforming the Index by 50 bps.

Strong selection in Health Care (+1.9%), Financials (+0.7%), and Energy (+0.5%) positively contributed to the portfolio's performance. Negative contribution came mainly from selection in Information Technology (-1.1%), Consumer Discretionary (-0.6%), and Consumer Staples (-0.3%).

THB's top five performing stocks (from a contribution standpoint) were PAR Technology Corp (Information Technology, +0.4%), US Physical Therapy (Health Care, +0.4%), Renewable Energy Group (Energy, +0.4%), Addus HomeCare Group (Health Care, +0.3%), and CryoLife Inc (Health Care, +0.3%). The bottom five performing stocks (from a contribution standpoint) were USA Technologies (Information Technology, -0.5%), Hill International (Industrials, -0.4%), Bassett Furniture (Consumer Discretionary, -0.3%), Flexsteel Industries (Consumer Discretionary, -0.3%), and Hooker Furniture (Consumer Discretionary, -0.3%).

We believe the improved psyche of US consumers and small businesses should not be overlooked. The domestic economic data and our many conversations with smaller companies point to a very solid foundation underpinning the US economy as plans for capital expansion, acquisitions, and productivity enhancements emerge. This inflection in the business cycle combined with modest valuations creates a very positive environment for smaller US stocks and for our portfolio.

Opportunity for alpha is plentiful in our universe as existing and new ideas leverage the strong economy to grow their topline, realign their existing business divisions, or enter new markets. Valuations for the asset class remain very attractive on both an absolute and relative perspective, and are compelling considering there are approximately 364 microcap companies trading at or below an EV/Sales of 1.0x versus only 39 in the S&P 500. Further, there are 239 microcap companies trading at or below 10.0x EBITDA versus 89 for the S&P 500.

## Portfolio & Benchmark Characteristics

Characteristics	THB Micro Cap	Russell Microcap
Holdings	101	1,566
Market Cap (\$mil)	641	658
Dividend Yield	0.7	1.1
LT Debt/Capital	19.2	29.4
Price/Earnings	18.6	—
P/E Forward	18.5	—
Price/Book	2.0	1.9
Price/Sales	1.3	1.0
EV/EBITDA	11.7	—
EV/Sales	1.2	1.4
Operating Margin	11.0	1.4
FCF Yield	3.2	(3.0)
ROE	8.2	—
ROIC	6.1	—

## 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	\$458MM
Amount of Dividends Paid	\$352MM
<b>Total Capital Returned to Shareholders</b>	<b>\$810MM</b>
Number of Acquisitions	56
Value of Acquisitions	\$3.3B
Portfolio Holdings Acquired	4

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 9/30/18 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.