

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
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 \$1.8million

	THB	Index
Alpha	1.8	
Beta	0.91	—
Tracking Error	3.68	—
Sharpe Ratio	0.71	0.59
Info Ratio	0.33	—
Std Deviation	11.2%	11.6%

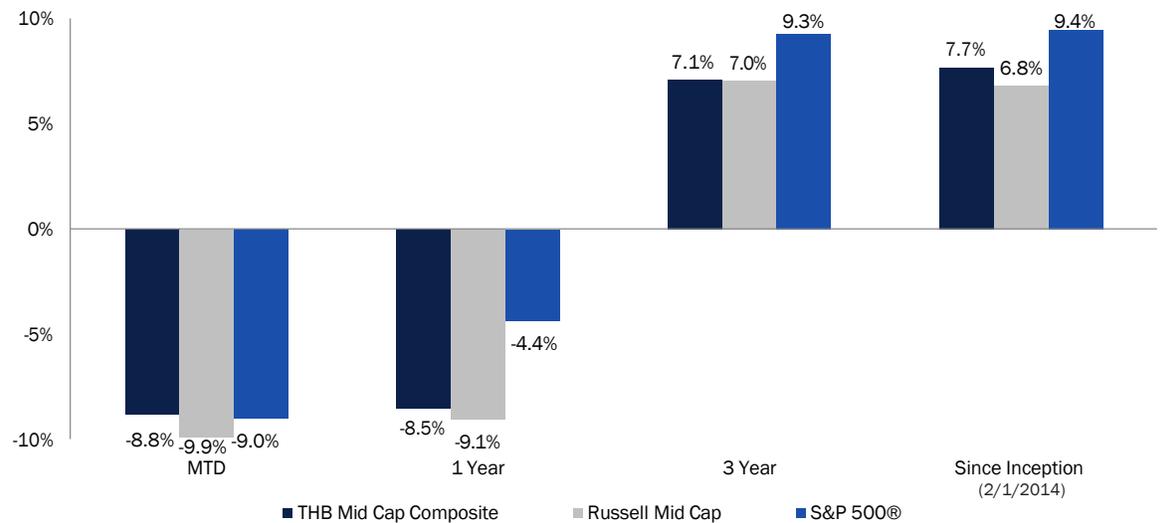
Market Commentary

The Russell Midcap® Index (Index) returned -15.4% in 4Q. Utilities (-1.4%) was the best performing sector this month, followed by Real Estate (-6.1%) and Consumer Staples (-7.8%). Energy (-33.9%) was the worst performing sector, followed by Health Care (-18.3%) and Industrials (-17.8%).

During a turbulent period, simplicity and clarity assist in creating order from the chaos of emotions, the 24-hour news cycle, and other external factors. In any given moment, there are many worries and concerns which can occupy our thoughts, but that is always the case and will never change. We have no shortage now with Trump, monetary policy, and China front of mind. Without complete certainty, we must assess the probabilities of the situation, have faith in our processes, and act with conviction.

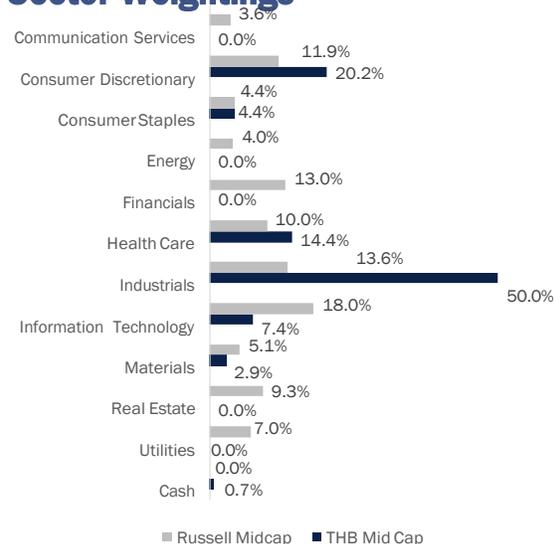
The US economy, while moderating from an extremely high level, is in very good standing. On a relative basis, 3.9% unemployment and greater than 3% real GDP for the first three quarters of 2018 looks very attractive. Record low unemployment, moderating energy prices, and tame inflation are all very positive for the US Consumer. Small businesses, responsible for 50% of GDP and 60% of job creation, witnessed record high levels of optimism that declined only slightly during the recent period. Tax and regulatory reform should continue to provide fuel for the economy as companies are still in the early stages of deploying excess capital delivered by these dual reforms. The Federal Reserve is in the process of tightening monetary policy, but absolute levels of interest rates remain very low. The risk of a policy mistake is possible, but the recent market activity should increase the probability the Federal Reserve moderates their stance and does not go too far.

Performance Snapshot (Net of fees)



1. Periods end 12/31/18 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

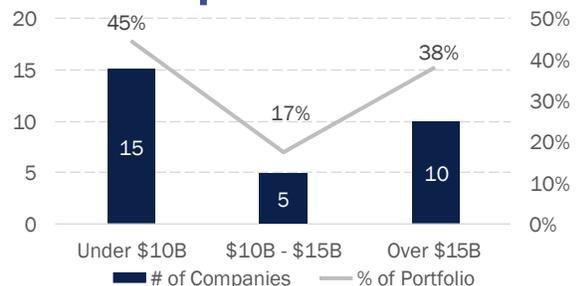


Active Management, High Active Share

94.3%

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 marketing@thbinc.com or (203) 653-7060.



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Portfolio Commentary

The THB Mid Cap Composite returned -13.4% (net of fees) in 4Q. Positive contribution came from selection in Industrials (+2.6%) and Health Care (+0.8%), as well as from underallocation to Energy (+1.1%). Negative contribution came from underallocation to Utilities (-0.9%) and Real Estate (-0.8%), as well as from selection in Materials (-0.3%).

The top five performing stocks (from a contribution standpoint) were Hormel Foods Corp (Consumer Staples, +0.3%), Dollar General Corp (Consumer Discretionary, +0.02%), Dentsply Sirona Inc (Health Care, +0.01%), NVR Inc (Consumer Discretionary, -0.03%), and Waters Corp (Health Care, -0.1%). The bottom five performing stocks (from a contribution standpoint) were Laboratory Corp of America (Health Care, -1.1%), JB Hunt Transport (Industrials, -1.0%), Mohawk Industries Inc (Consumer Discretionary, -0.8%), Packaging Corp of America (Materials, -0.8%), and Tyler Technologies Inc (Information Technology, -0.7%).

Our processes, risk controls, and philosophical avoidance of highly-levered companies served us well this year on a relative basis but did not immunize us from having a down absolute year. Down years, while never pleasant, provide many alpha opportunities. This is especially true during broad-based market downturns characterized by the indiscriminate selling we witnessed in the fourth quarter. Many pundits have tried to pinpoint the cause on algorithms, fund flows, or the unwinding of a large, levered market player. We remain focused on the great opportunities in our universe rather than trying to extrapolate an exact reason for the pullback.

Non-recessionary market drawdowns historically have been excellent periods for adding to market positions. These swift pullbacks offer numerous opportunities for active management to add value and deliver alpha in the following periods. Investors tend to extrapolate market actions into predictions of recessions and this time is no different. Pullbacks of this magnitude have happened multiple times but did not correspond to a US recession. We believe the current environment has been caused by a confluence of simultaneous events (moderating US growth, tariffs, rising interest rates, global growth fears) and exacerbated by market dynamics (passive flows, leveraged market participants, 24 hours news cycle). The overall US economy remains in very good shape and valuations for the companies we invest in are incredibly attractive. We see this pullback as a normal event during a secular bull market and have been taking advantage of the great opportunities in our market.

Portfolio & Benchmark Characteristics

Characteristics	THB Mid Cap	Russell Midcap
Holdings	30	800
Market Cap (\$bil)	14.0	13.5
Dividend Yield	1.1	1.9
LT Debt/Capital	29.1	42.7
Price/Earnings	17.9	--
P/E Forward	16.7	--
Price/Book	3.5	2.3
EV/EBITDA	13.5	--
EV/Sales	2.8	2.4
Operating Margin	17.0	13.1
FCF Yield	4.0	3.3
ROE	22.6	14.9
ROIC	13.3	--

Corporate Activity

THB Mid Cap - Trailing 12 months

Number of Companies	30
Companies with Share Repurchases	25
Companies that Paid Dividends	19
Amount of Share Repurchases	\$10.0B
Amount of Dividends Paid	\$3.8B
Total Capital Returned to Shareholders	\$13.9B
Number of Acquisitions	34
Value of Acquisitions	\$5.0B

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 12/31/18 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.