

Portfolio Team



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



Keith Dickinson, CFA
Principal
Portfolio Manager
17 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 eight 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	\$662 million	
	THB	Index
Alpha	6.8%	—
Beta	0.92	—
Tracking Error	7.26	—
Sharpe Ratio	0.65	0.35
Info Ratio	0.9	—
Std Deviation	21.2%	21.8%

Market Commentary

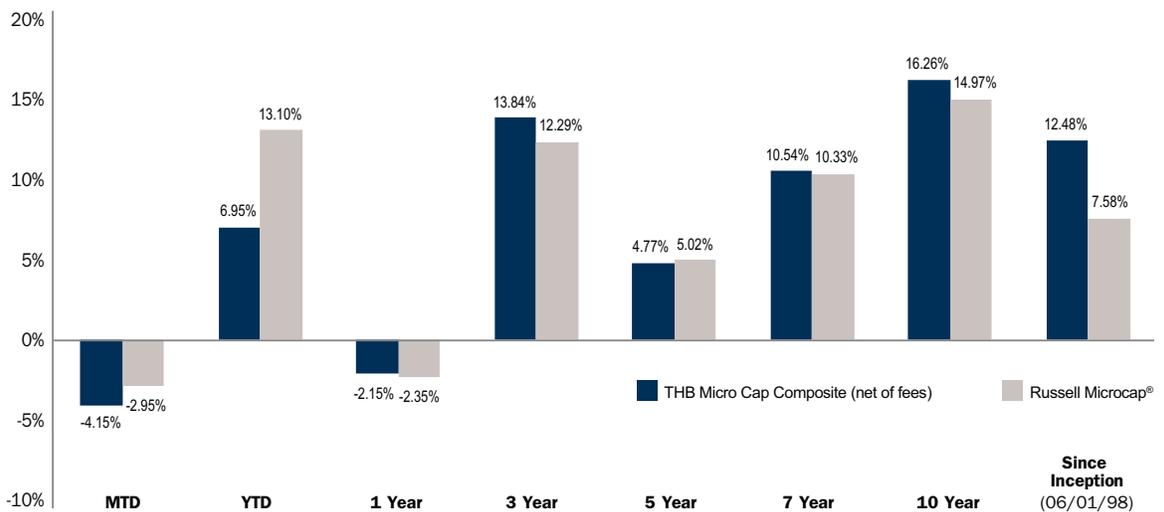
The Russell Microcap® Index (Index) returned +13.1% (USD) in 1Q with all sectors exhibiting positive returns.

Health Care (+19.0%) was the best performing sector in 1Q, followed by Real Estate (+18.6%) and Information Technology (+17.4%). Utilities (+5.5%) was the worst performing sector, followed by Financials (+6.9%) and Communication Services (+7.5%).

The U.S. equity markets rebounded nicely during 1Q following a tumultuous end to 2018. Many of the concerns that contributed to the broad selloff late last year were replaced with optimism regarding a potential U.S./China trade resolution, solid corporate earnings, and a more dovish stance from the Federal Reserve that left interest rates unchanged and scaled back projections for further rate hikes in 2019. The U.S. federal government shutdown earlier in the year had some effect on consumer and business confidence indicators, but recent measures are off the intra-quarter lows and we believe we will continue to see higher levels of confidence as we move further away from the shutdown.

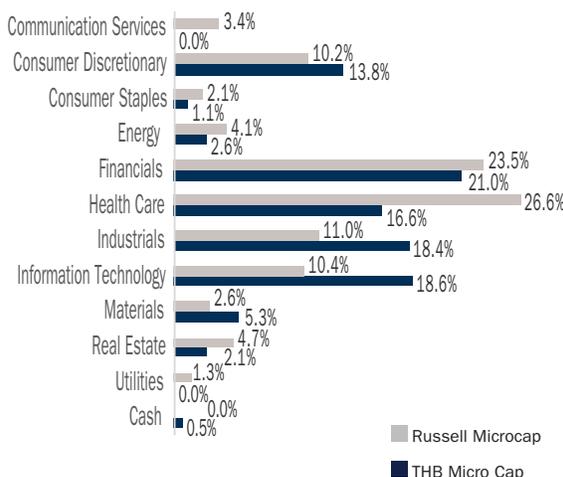
Employment is strong and will continue to drive the economy. The next leg of economic expansion will be supported by capital spending on technology to enhance automation, improve efficiency, and combat wage pressure as businesses find it more difficult to squeeze margins out of the labor force. Increased capex triggered by tax reform and deregulation efforts takes time to flow through the economy and we may be in the early days of witnessing the related economic growth benefits of these initiatives.

Performance Snapshot (Net of Fees)



1. Periods end 3/31/19 and are net of fees and presented in USD. Past performance is not indicative of future results. Returns represented include reinvestment of dividends and other income.

Sector Weightings



Sector weightings subject to change.

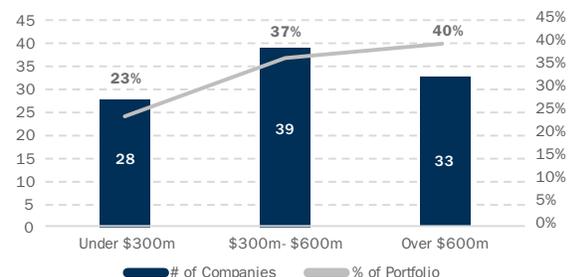
Active Management, High Active Share

Active Share vs Russell Microcap Index

Active share is the percentage of the fund's portfolio that differs from the benchmark index. High active share indicates a high degree of active management.

91.1%

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 mitigate 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 Micro Cap Composite returned +7.0% in USD (net of fees) in 1Q, underperforming the Index by 615 bps.

Negative contribution came primarily from selection in Health Care (-1.5%), Information Technology (-1.5%), Financials (-1.4%), and Industrials (-1.0%). Underallocation to Health Care (-0.5%) was also a detractor. Positive contribution came largely from stock selection in Real Estate (+0.4%) and Materials (+0.3%), as well as overallocation to Information Technology (+0.3%).

Much of the underperformance stemming from stock selection is reflective of our focus on higher quality, lower risk stocks. Lower quality and higher risk companies that underperformed during the selloff in 4Q 2018 rebounded disproportionately in 1Q. For example, 12 out of the top 20 highest Index movers in 1Q are biotechnology companies.

THB's top five performing stocks (from a contribution standpoint) were Innovative Industrial Properties Inc. (Real Estate, +0.5%), UFP Technologies, Inc. (Materials, +0.4%), LeMaitre Vascular, Inc. (Health Care, +0.4%), Ultralife Corporation (Industrials, +0.4%), and Century Communities Inc. (Consumer Discretionary, +0.4%).

THB's bottom five performing stocks (from a contribution standpoint) were Graham Corporation (Industrials, -0.3%), Allied Motion Technologies, Inc. (Industrials, -0.3%), PRGX Global, Inc. (Information Technologies, -0.3%), Insteel Industries, Inc. (Industrials, -0.2%), and Fiesta Restaurant Group, Inc. (Consumer Discretionary, -0.2%).

Even with the solid rebound in 1Q, we believe there is still much room for additional gains, particularly when considered in the context of prior drawdowns similar in magnitude to the one that occurred in 4Q 2018 in which 50% of all companies within the U.S. micro cap universe were down more than 15% in the trailing 12 months. In addition, the price-to-sales valuation gap between large cap and micro cap remains close to an all-time high and the absolute price-to-sales valuation of micro cap is not too far off long term trough levels (excluding the period during the great financial crisis).

Portfolio and Benchmark Characteristics

Characteristics	THB Micro Cap	Russell Microcap
Holdings	100	1,550
Market Cap (\$mil)	578	644
Dividend Yield	0.8%	1.2%
LT Debt/Capital	17.0%	27.3%
Price/Earnings	18.4x	—
P/E Forward	16.7x	—
Price/Book	1.8x	1.7x
Price/Sales	1.1	0.9x
EV/EBITDA	9.8x	—
EV/Sales	1.2x	1.2x
Operating Margin	11.1%	5.5%
FCF Yield	2.3%	-2.2%
ROE	7.7%	-2.4%
ROIC	6.1%	—

Corporate Activity

THB Micro Cap Trailing 12 months	
Number of Companies	100
Companies with Share Repurchases	53
Companies that Paid Dividends	45
Amount of Share Repurchases (\$,mil)	454
Amount of Dividends Paid (\$,mil)	467
Total Capital Returned to Shareholders (\$,mil)	921
Number of Acquisitions	61
Value of Acquisitions (\$,bil)	4
Portfolio Holdings Acquired	2

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

1. Periods end 3/31/2019 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 capitalization 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.