

# THB Small Cap Core Strategy



THB Asset Management | 1Q 2019

## Portfolio Team



**William J. Bryant, Jr.**  
Principal, Chairman  
Portfolio Manager  
53 years of experience



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



**William Bryant III, CFA**  
Principal  
Portfolio Manager  
24 years of experience



**Keith Dickinson, CFA**  
Principal  
Portfolio Manager  
17 years of experience

## Portfolio Objective

THB Small Cap Core seeks long term capital appreciation over full market cycles by using a disciplined, bottom up approach. We invest primarily in companies within the Russell 2000 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 product will typically hold 70-90 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.

## Fund Details

Benchmark	Russell 2000	
Inception	January 1992	
Strategy Size	\$44 million	
<b>Risk Factors*</b>	<b>THB</b>	<b>Index</b>
Alpha	2.1%	—
Beta	0.9	—
Tracking Error	7.7	—
Sharpe Ratio	0.58	0.51
Info Ratio	0.28	—
Std Deviation	18.8%	18.7%

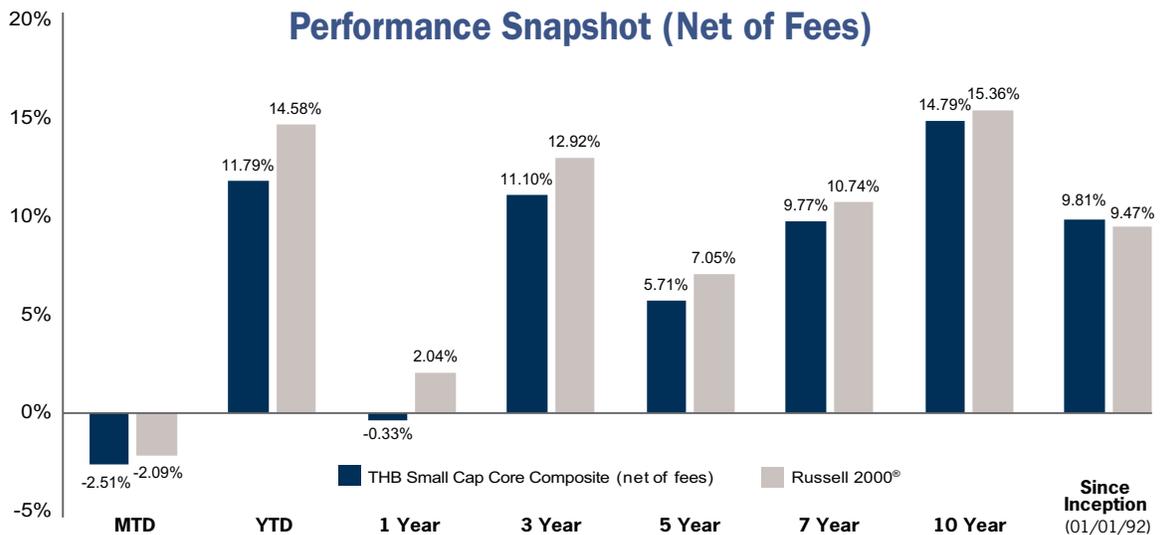
## Market Commentary

The Russell 2000® Index (Index) returned +14.6% USD in 1Q with all sectors exhibiting positive returns.

Information Technology (+22.4%) was the best performing sector, followed by Energy (+20.0%) and Real Estate (+17.6%). Consumer Staples (+7.5%) was the worst performing sector, followed by Financials (+8.6%) and Utilities (+10.5%).

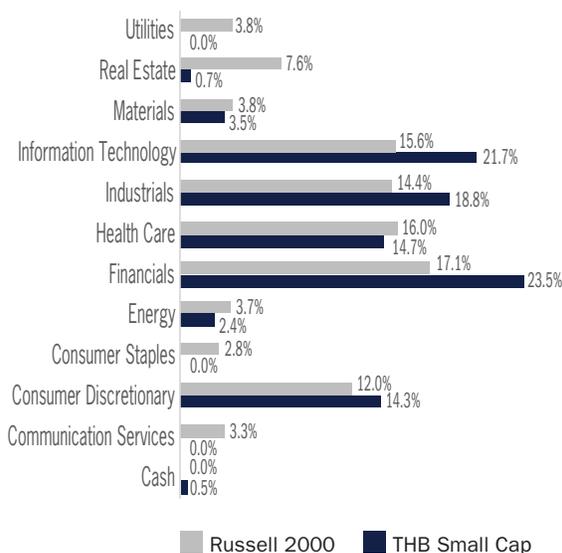
The U.S. equity markets rebounded nicely during 1Q following a tumultuous end to 2018. Many of the concerns that contributed to the broad selloff late last year were replaced with optimism regarding a potential U.S./China trade resolution, solid corporate earnings, and a more dovish stance from the Federal 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.



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.

## Sector Weightings



Sector weightings subject to change.

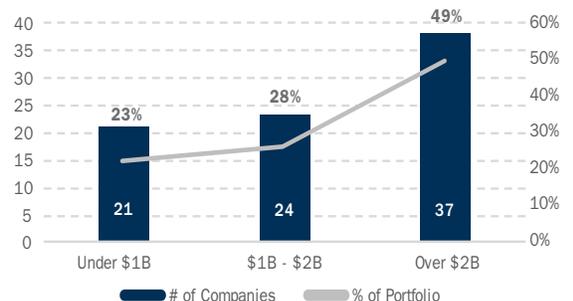
## Active Management, High Active Share

Active Share vs Russell 2000 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.

# 94.3%

## 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 Small Cap Composite returned +11.8% in USD (net of fees), underperforming the Index by 279 bps.

Negative contribution came mainly from selection in Financials (-1.4%), Consumer Discretionary (-1.2%), and Health Care (-0.9%). Positive contribution came primarily from stock selection in Industrials (+0.8%) and Information Technology (+0.7%), as well as overallocation to Information Technology (+0.3%).

THB's top five performing stocks (from a contribution standpoint) were Rogers Corporation (Information Technology, +1.1%), Chart Industries (Industrials, +0.6%), ePlus, Inc. (Information Technology, +0.5%), ANI Pharmaceuticals Inc (Health Care, +0.5%), and AAON, Inc. (Industrials, +0.4%).

The bottom five performing stocks (from a contribution standpoint) were Cooper-Standard Holdings, Inc. (Consumer Discretionary, -0.3%), Helen of Troy (Consumer Discretionary, -0.2%), Emergent BioSolutions Inc. (Health Care, -0.2%), Fiesta Restaurant Group, Inc. (Consumer Discretionary, -0.1%) and Horace Mann Educators Corp (Financials, -0.1%).

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 42% of all companies within the U.S. small cap universe were down more than 15% in the trailing 12 months. In addition, the price-to-sales valuation gap between large cap and small cap remains close to an all-time high.

## Portfolio and Benchmark Characteristics

Characteristics	THB Small Cap	Russell 2000
Holdings	83	2,016
Market Cap (\$mil)	2,151	2,391
Dividend Yield	1.3%	1.4%
LT Debt/Capital	19.9%	33.1%
Price/Earnings	17.1x	17.5x
P/E Forward	15.9x	16.1x
Price/Book	2.0x	2.0x
Price/Sales	1.3x	1.1x
EV/EBITDA	10.1x	10.4x
EV/Sales	1.5x	1.5x
Operating Margin	13.2%	8.7%
FCF Yield	4.0%	0.9%
ROE	13.5%	5.8%
ROIC	8.0%	3.2%

## Corporate Activity

THB Small Cap Trailing 12 months	
Number of Companies	83
Companies with Share Repurchases	54
Companies that Paid Dividends	49
Value of Share Repurchases (\$,bil)	3.4
Value of Dividends Paid (\$,bil)	2.3
<b>Total Capital Returned to Shareholders (\$,bil)</b>	<b>5.6</b>
Number of Acquisitions	71
<b>Value of Acquisitions (\$,bil)</b>	<b>9.7</b>

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. 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 Small Cap Core Composite is on smaller capitalization companies in the US market that are under-researched and over-looked. The benchmark is the Russell 2000 Index. 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.