

Portfolio Team



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



Keith Dickinson, CFA
Principal
Portfolio Manager
17 years of experience



Manish Maheshwari, CFA
Principal
Portfolio Manager
21 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	\$604 million	
	THB	Index
Alpha	6.8%	—
Beta	0.92	—
Tracking Error	7.21	—
Sharpe Ratio	0.65	0.35
Info Ratio	0.90	—
Std Deviation	21.2%	21.8%

Market Commentary

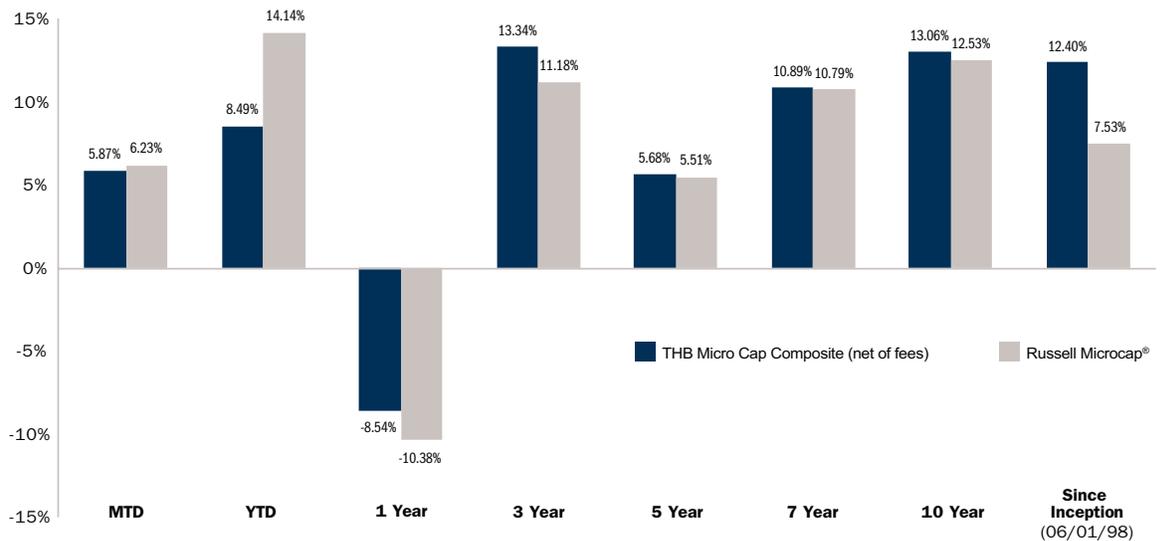
The Russell Microcap® Index (Index) returned +0.9% (USD) in 2Q.

Real Estate (+8.1%) was the best performing sector in 2Q followed by Utilities (+7.2%) and Financials (+5.2%). Energy (-10.1%) was the worst performing sector, followed by Communication Services (-6.6%) and Materials (-4.7%).

US Equities ended the quarter higher as markets digested strong current economic data, but remained concerned about the outlook due to slowing global growth and tariffs. Trade negotiations with China and The Federal Reserve's pivot on interest rates were driving factors for the market this quarter.

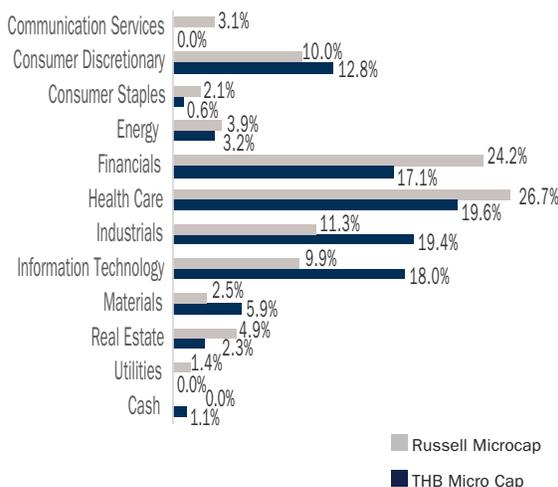
Sentiment/optimism indicators are picking up post the year end malaise caused by the government shutdown. The NFIB Small Business Optimism Index (2000 small private US companies polled) has seen four months of sequential increases. The all-time high of 108.8 took place in August 2018 and it registered 105.0 for May. The US Consumer continues the power the economy with The University of Michigan consumer sentiment index rising to a 15 year high of 102.4. Consumers remain buoyed by the strong labor market as the jobless rate hit a 50-year low of 3.6%. The US consumer and Small businesses are the backbone of the economy and both groups are looking through the noise of trade negotiations and focusing on the strong underlying economy.

Performance Snapshot (Net of Fees)



1. Periods end 6/30/19 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.

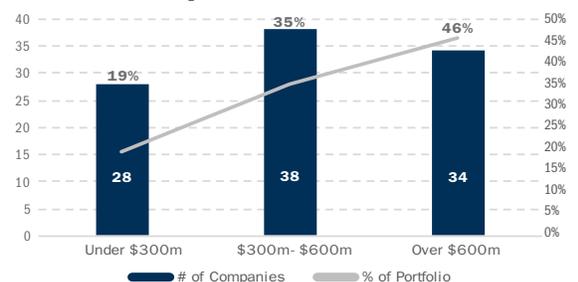
Active Management, High Active Share

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.

90.8%

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 +1.1% in USD (net of fees) in 2Q outperforming the Index by 20 bps.

The portfolio saw positive contribution from Stock selection to Consumer Discretionary (+0.6%), Materials (+0.6%), and Health Care (+0.5%). Negative contribution came mainly from selection in Industrials (-0.9%), Financials (-0.5%), and underallocation to Real Estate (-0.2%).

THB's top five performing stocks (from a contribution standpoint) were Circor International, Inc. (Industrials,+0.5%), PAR Technologies (Information Technology , +0.4%), Rudolph Technologies, Inc. (Information Technology, +0.3%), Ultra Clean Holdings, Inc. (Information Technology, +0.3%), and U.S Physical Therapy, Inc. (Health Care, +0.3%).

The bottom five performing stocks (from a contribution standpoint) were Argan, Inc. (Industrials, -0.4%), ePlus Inc. (Information Technology, -0.3%), MarineMax, Inc. (Consumer Discretionary, -0.3%), TimkenSteel Corp (Materials, -0.2%) and PRGX Global (Materials, -0.2%).

Micro Cap companies are trading at a historic high valuation discount relative to Large Capitalization equities although there are many reasons why the gap should close. Small business optimism near record levels, robust cash flows stemming from Tax Reform/ deregulation and increasing levels of merger and acquisition activity create a very positive environment for the asset class. US Large cap equities have traded to historic highs while Small and Micro cap equities have lagged and remain 15-20% below record levels. Using Small Cap (Russell 2000) as a proxy, periods like the current have only occurred three times in the last 40 years and each saw Small Caps catch up to Large Cap and reach record highs themselves. We believe Micro Cap equities present a compelling opportunity for investors due to the strong US economy and trough valuation levels.

Portfolio and Benchmark Characteristics

Characteristics	THB Micro Cap	Russell Microcap
Holdings	100	1,519
Market Cap (\$mil)	631	714
Dividend Yield	0.7%	1.2%
LT Debt/Capital	17.7%	26.9%
Price/Earnings	20.1x	—
P/E Forward	17.5x	—
Price/Book	1.8x	1.8x
Price/Sales	1.0x	0.9x
EV/EBITDA	13x	—
EV/Sales	1.2x	1.3x
FCF Yield	2.0%	-1.8%
Operating Margin	11.5%	5.5%
ROE	8.7%	-2.1%
ROIC	5.4%	—

Corporate Activity

THB Micro Cap Trailing 12 months (\$ in millions, except # of companies)	
Companies with Share Repurchases	55
Companies that Paid Dividends	45
Value of Share Repurchases	435
Value of Dividends Paid	452
Total Capital Returned to Shareholders	887
Number of Acquisitions	56
Value of Acquisitions	3,000
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 6/30/2019 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.