

Portfolio Team



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



Manish Maheshwari, CFA
Principal
Portfolio Manager
21 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 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 Mid Cap	
Inception	February 2014	
Strategy Size	\$2.3 million	
	THB	Index
Alpha	2.5%	—
Beta	0.91	—
Tracking Error	3.66	—
Sharpe Ratio	0.96	0.79
Info Ratio	0.42	—
Std Deviation	12.0%	12.6%

Market Commentary

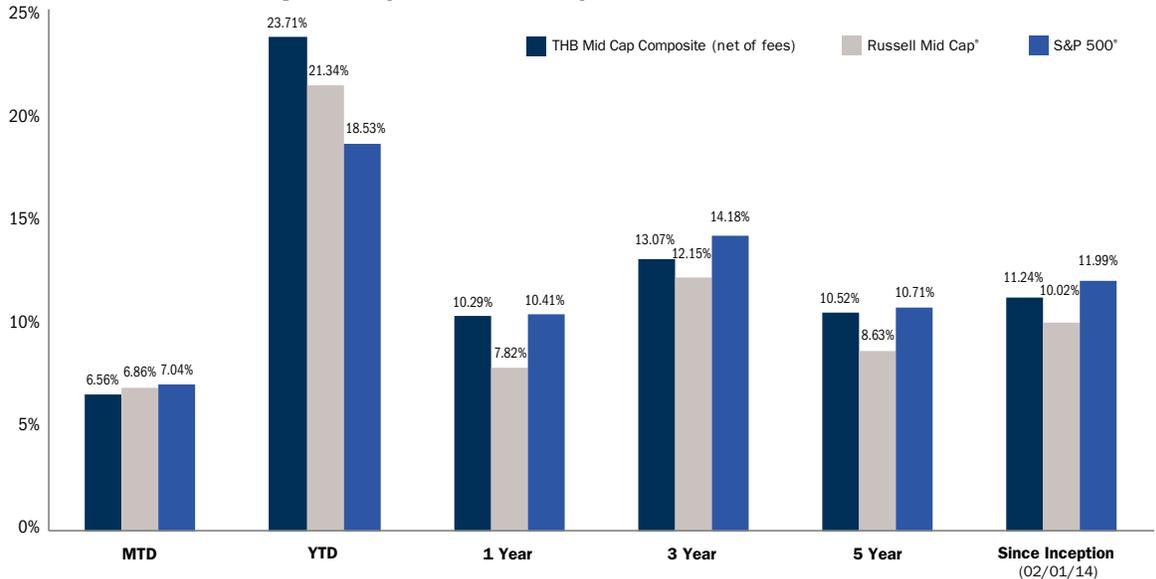
The Russell Midcap® Index (Index) returned 4.1% (USD) in 2Q.

Financials (+8.1%) was the best performing sector in 2Q, followed by Communication Services (+7.7%) and Industrials (+7.3%). Energy (-7.7%) was the worst performing sector, followed by Consumer Staples (-0.3%) and Real Estate (+0.9%).

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.

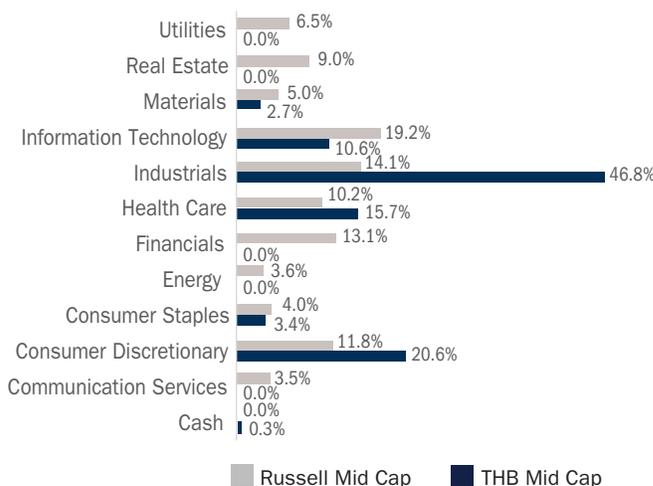
Sentiment/optimism indicators are picking up post the year end malaise caused by the government shutdown. The NFIB Small Business Optimism Index (2000 small private US companies polled) has seen four months of sequential increases. The all-time high of 108.8 took place in August 2018 and it registered 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 6/30/2019 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.

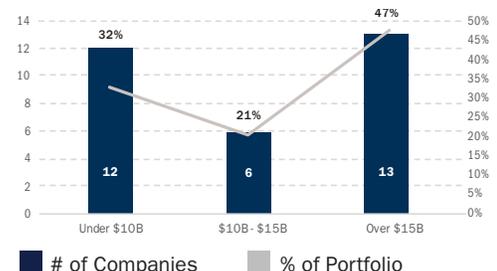
Active Management, High Active Share

Active Share vs Russell Mid Cap 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.

93.8%

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 Mid Cap Composite returned 6.1% in USD (net of fees) in Q2, outperforming the Index by 200bps.

The portfolio saw positive contribution from stock selection to Consumer Discretionary (+1.5%), overallocation to Industrials (+1.1%), and selection in Information Technology (+0.5%). Negative contribution mainly came from stock selection in Industrials (-1.1%), underallocation to Financials (-0.5%) and selection in Consumer Staples (-0.3%).

THB's top five performing stocks (from a contribution standpoint) were Copart, Inc. (Industrials, +0.9%), Cerner Corporation (Health Care, +0.8%), Total System Services, Inc. (Information Technology, +0.8%), Dentsply Sirona, Inc. (Health Care, +0.7%), and IHS Markit Ltd. (Industrials, +0.6%).

The bottom five performing stocks (from a contribution standpoint) were Waters Corporation (Health Care, -0.7%), A.O. Smith Corporation (Industrials, -0.5%), J.B. Hunt Transport (Industrials, -0.4%), Hormel Foods Corporation (Consumer Staples, -0.4%) and Rollins, Inc. (Industrials, -0.3%).

During the 2Q, our portfolio saw increased levels of positive corporate activity. Cerner Corp. announced a broad agreement with activist investor, Starboard Value. Parts of the agreement include increasing the current repurchase authorization by an additional \$1.2B, committing to operating margin targets and the inclusion of 4 new members to the board of directors. We applaud company management for listening to value enhancing ideas from shareholders and not creating a public, costly fight with an activist investor. Parker Hannifin announced the acquisition of privately held Lord Corp. for \$3.67B. This acquisition is immediately accretive to earnings, fits well into Parker's existing portfolio and illustrates how US companies are becoming more optimistic and are deploying excess cash flows into growth opportunities. Portfolio holding Total System Services (IT) announced an acquisition by competitor Global Payments Inc. at a 20% premium to the prior close. NVR Inc (Consumer) announced a new \$300M share repurchase authorization having purchased \$705M during the prior year.

Portfolio and Benchmark Characteristics

Characteristics	THB Mid Cap	Russell Mid Cap
Holdings	31	781
Market Cap (\$, mil)	17,029	16,916
Dividend Yield	0.9%	1.7%
LT Debt/Capital	29.7%	43.4%
Price/Earnings	21.9x	20.7x
P/E Forward	20x	18.2x
Price/Book	4.2x	2.7x
Price/Sales	2.1x	1.8x
EV/EBITDA	13.6x	13x
EV/Sales	2.1x	2.3x
Operating Margin	16.0%	13.6%
FCF Yield	4.4%	3.1%
ROE	24.2%	15.9%
ROIC	15.1%	7.6%

Corporate Activity

THB Mid Cap Portfolio

Trailing 12 months (\$ in billions, except # of companies)

Companies with Share Repurchases	27
Companies that Paid Dividends	19
Value of Share Repurchases	13.2
Value of Dividends Paid	4.1
Total Capital Returned to Shareholders	17.3
Number of Acquisitions	38
Value of Acquisitions	6.2

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. 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.