

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	\$500 million	
	THB	Index
Alpha	6.5%	—
Beta	0.92	—
Tracking Error	7.19	—
Sharpe Ratio	0.65	0.36
Info Ratio	0.81	—
Std Deviation	21.0%	21.6%

Market Commentary

The Russell Microcap® Index (Index) returned +13.4% (USD) in 4Q.

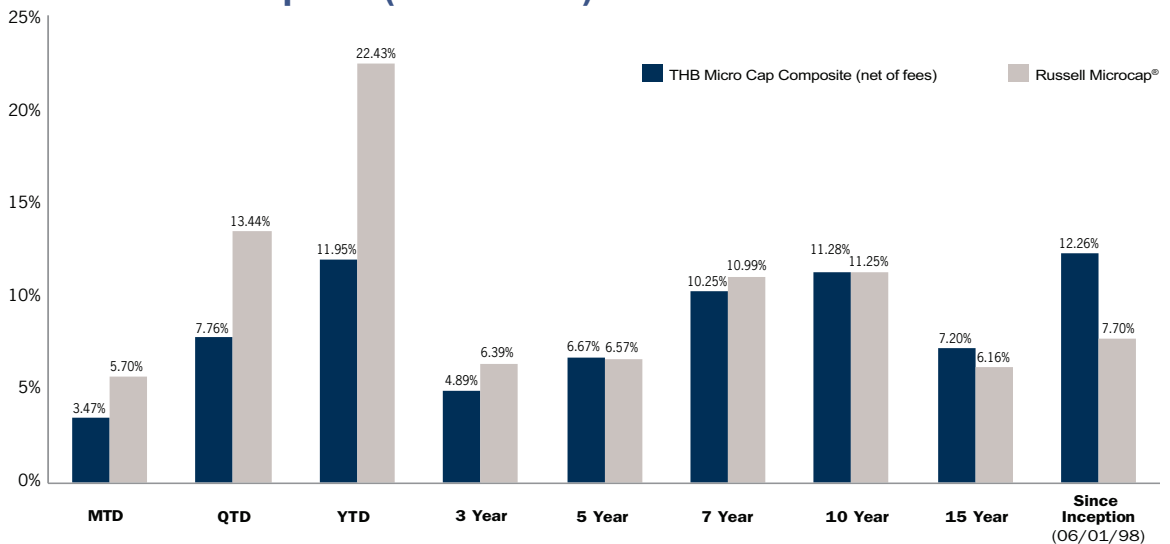
Health Care (+28.7%) was the best performing sector in 4Q followed by Energy (+17.0%) and Communication Services (+13.5%). Real Estate (+0.5%) was the worst performing sector, followed by Utilities (+3.0%) and Consumer Discretionary (+6.5%).

US Equities were broadly higher in the 4th quarter as economic data continued to surprise to the upside, earnings were mostly ahead of expectations and trade tensions with China took a positive turn. Investors' fears of a recession faded as the stronger earnings data was further confirmed by increases in both consumer and small business confidence indicators.

University of Michigan Consumer Sentiment and NFIB Small Business Optimism index both registered multi month highs during December of 99.3 and 104.7 respectively. Those two pillars of the US economy remain extremely strong. US and China agree to sign Phase I on January 15, 2020 and will mark a positive development between the two countries. Trade issues have been frequently cited by consumer and business as one the few concerns they have regarding future business and economic growth.

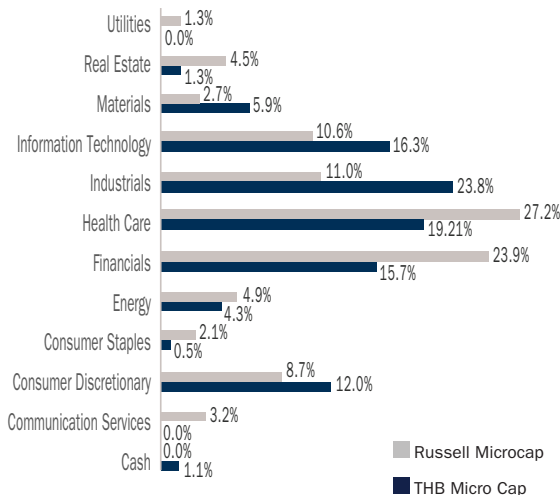
Style was a major contributor to performance during the quarter as growth outperformed value across the capitalization spectrums. The NYSE FANG Index (equal weight of FB, AAPL, AMZN, NF, GOOG) was up 22.25% while the Nasdaq Biotech Index was up 21.22% for the quarter. Both of those subsets' performance far outpaced broader market indices.

Performance Snapshot (Net of Fees)



1. Periods end 12/31/19 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.

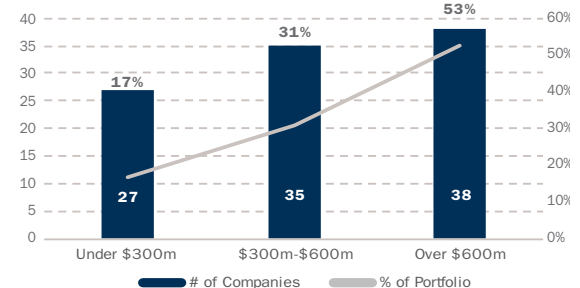
Active Management, High Active Share

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.

90.5%

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 +7.8% in USD (net of fees) in 4Q underperforming the Index by 560 bps.

The portfolio saw negative contribution from Stock selection to Health Care (-5.3%), underallocation to Health Care (-0.6%), and overallocation to Industrials (-0.6%). Positive contribution came mainly from selection in Information Technology (+0.7%), Materials (+0.7%) and underallocation to Real Estate (+0.4%).

THB's top five performing stocks (from a contribution standpoint) were Renewable Energy Group, Inc. (Energy, +1.5%), Ultra Clean Holdings, Inc. (Information Technology, +1.0%), PAR Technology Corporation (Information Technology, +0.7%), Johnson Outdoors, Inc. (Consumer Discretionary, +0.7%) and Koppers Holdings, Inc. (Materials, +0.6%).

The bottom five performing stocks (from a contribution standpoint) were CARBO Ceramics, Inc. (Energy, -0.4%), Orthofix Medical, Inc. (Health Care, -0.3%), Del Taco Restaurants, Inc. (Consumer Discretionary, -0.3%), Lantheus Holdings, Inc. (Health Care, -0.2%) and Exterran Corp. (Energy, -0.2%).

During the quarter, unprofitable companies were up 31% while profitable companies were up 9%. Biotechnology companies were the largest contributor to the benchmark performance and now comprise 21% of the benchmark weighting. These companies are largely unprofitable and do not fit our investment philosophy of owning well capitalized companies which generate positive cash flow to self-fund their own growth. Not owning these companies cost us **5.9%** relative to the index during the quarter.

We remain confident that our time-tested philosophy of investing in profitable companies is the prudent approach to delivering alpha for our clients. Over our 21 years of managing the strategy, we have outperformed the Russell Micro Cap and Russell 2000 Small Cap by 597 and 606 bps annualized respectively. Time has taught us that periods such as 4Q tend to be transitory and can quickly reverse. Unprofitable companies within the Small and Micro Cap indices have reached levels last seen during the technology bubble. They represent 35%, 24%, 35% of the Russell Micro Cap, Russell 2000 and Russell Small Cap Growth respectively. Such high representation and performance driven by speculative, unprofitable companies reinforces the need for active management.

The US Economy remains very strong and the main concern (Trade issues between the US and China) cited by both consumers and businesses is quickly moving towards resolution. The removal of that concern should build upon the strong economic foundation which has been gaining strength from tax reform and deregulation efforts. Business conditions/interest rates are accommodative, consumers and businesses are reporting near record high levels of optimism and pent up capital spending (which may have been delayed due to trade tensions) should start to accelerate.

During the quarter, four of our holdings have announced new share repurchase authorizations totaling \$27.2M. Such activity is indicative of the discounted valuations present within our universe of stocks.

Portfolio and Benchmark Characteristics

Characteristics	THB Micro Cap	Russell Microcap
Holdings	100	1,468
Market Cap (\$mil)	708	651
Dividend Yield	0.7%	1.2%
LT Debt/Capital	18.5%	26.4%
Price/Earnings	20.4x	—
P/E Forward	18.4x	—
Price/Book	2.0x	1.7x
Price/Sales	1.1x	0.7x
EV/EBITDA	12.6x	—
EV/Sales	1.1x	1.1x
FCF Yield	2.2%	-3.3%
Operating Margin	10.1%	6.1%
ROE	9.5%	-2.5%
ROIC	2.5%	—

Corporate Activity

THB Micro Cap Trailing 12 months (\$ in millions, except # of companies)	
Number of Companies	100
Companies with Share Repurchases	59
Companies that Paid Dividends	40
Value of Share Repurchases	522
Value of Dividends Paid	455
Total Capital Returned to Shareholders	977
Number of Acquisitions	75
Value of Acquisitions	3,200

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 12/31/2019 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.