

# THB Small Cap Core Strategy



THB Asset Management | 4Q 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



**Manish Maheshwari, CFA**  
Principal  
Portfolio Manager  
21 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	\$47 million

Risk Factors*	THB	Index
Alpha	2.0%	—
Beta	0.92	—
Tracking Error	7.59	—
Sharpe Ratio	0.58	0.51
Info Ratio	0.26	—
Std Deviation	18.7%	18.6%

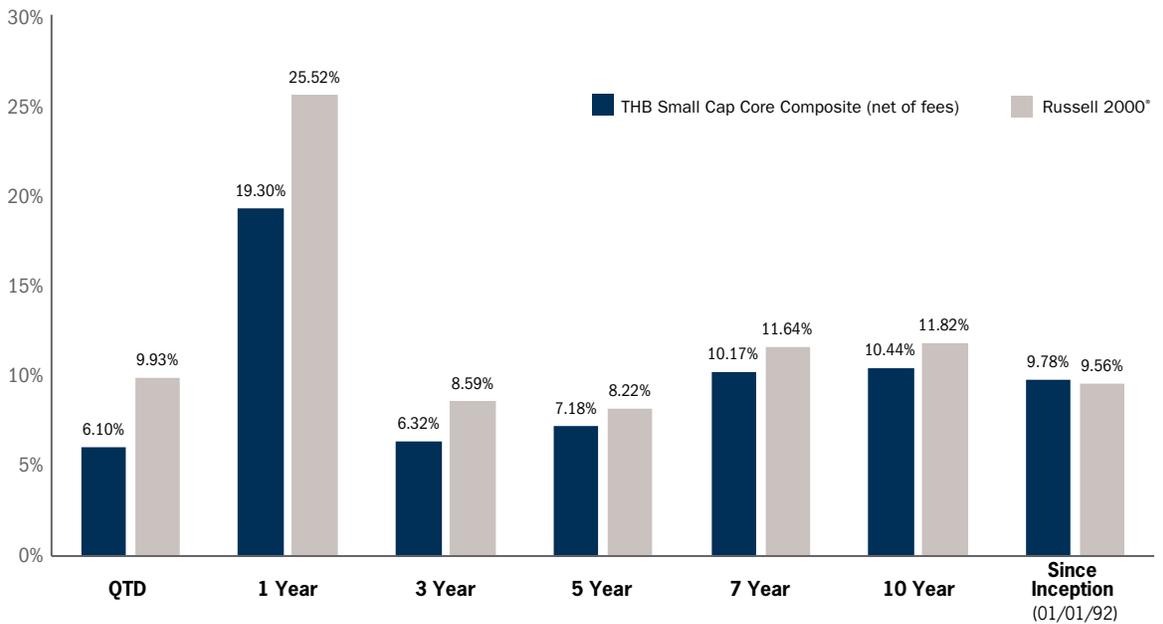
## Market Commentary

The Russell Smallcap® Index (Index) returned +9.9% (USD) in 4Q.

Health Care (+22.3%) was the best performing sector in 4Q followed by Information Technology (+11.6%) and Materials (+11.4%). Utilities (-1.8%) was the worst performing sector, followed by Real Estate (+3.0%) and Communication Services (+5.2%).

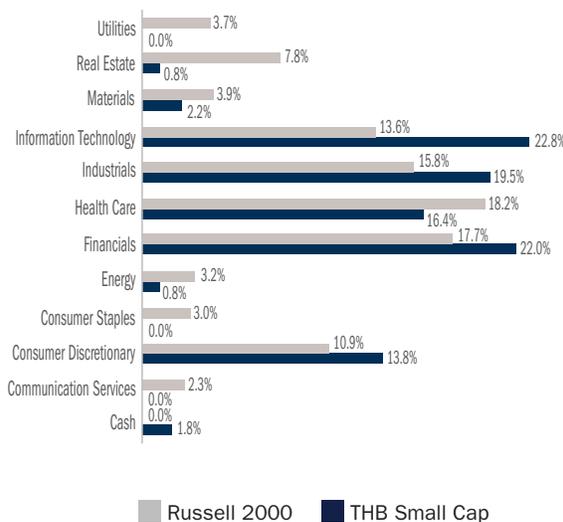
Style was a major contributor to performance during the quarter as growth outperformed value across the capitalization spectrums. The NYSE FANG Index (equal weight of FB, AAPL, AMZN, NF, GOOG) was up 22.25% while the Nasdaq Biotech Index was up 21.22% for the quarter. Both of those subsets' performance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

## Performance Snapshot (Net of Fees)



1. Periods end 12/31/2019 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.

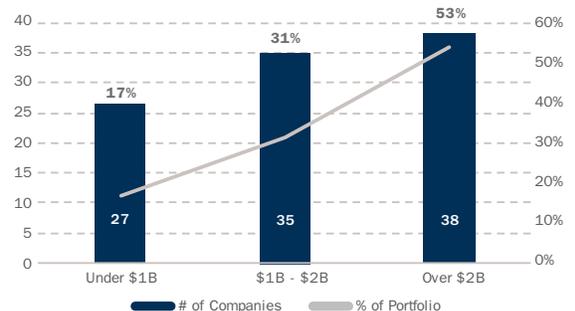
## Active Management, High Active Share

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.

# 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 Small Cap Composite returned +6.1% in USD (net of fees) in 4Q, underperforming the Index by 380 bps.

Unprofitable companies with the Russell 2000 now represent approximately 30% of the index. This level was last reached during 2000 at the peak of the technology bubble. Such high representation and performance driven by speculative, unprofitable companies reinforces the need for active management.

The largest detractor (approximately 300 bps) from performance this quarter came from Biotechnology/Pharmaceutical companies. The companies are mostly unprofitable and do not fit our philosophy of investing in high quality, profitable businesses.

The portfolio saw negative contribution from Stock selection to Health Care (-2.8%), Consumer Discretionary (-0.5%), and Materials (-0.3%). Positive contribution came mainly from selection in Industrials (+0.8%) and underallocation to Utilities (+0.5%) and Real Estate (+0.5%).

THB's top five performing stocks (from a contribution standpoint) were Altra Industrial Motion Corp. (Industrials, +0.6%), Thor Industries, Inc. (Consumer Discretionary, +0.5%), Virtusa Corporation (Information Technology, +0.5%), Kemet Corporation (Information Technology, +0.5%) and Steve Madden, Ltd. (Consumer Discretionary, +0.4%).

The bottom five performing stocks (from a contribution standpoint) were Selective Insurance Group, Inc. (Financials, -0.2%), Meritage Homes Corporation (Consumer Discretionary, -0.2%), Intrepid Potash, Inc. (Materials, -0.2%), Rogers Corporation (Information Technology, -0.2%) and ANI Pharmaceuticals, Inc. (Health Care, -0.2%).

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 solid 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.

## Portfolio and Benchmark Characteristics

Characteristics	THB Small Cap	Russell 2000
Holdings	78	1,995
Market Cap (\$mil)	2,466	2,465
Dividend Yield	1.4%	1.4%
LT Debt/Capital	21.4%	33.8%
Price/Earnings	16.4x	19.0x
P/E Forward	18.4x	17.3x
Price/Book	2.1x	2.0x
Price/Sales	1.5x	1.1x
EV/EBITDA	13.5x	13.0x
EV/Sales	1.5x	1.4x
FCF Yield	3.1%	0.9%
Operating Margin	12.4%	8.7%
ROE	12.3%	5.3%
ROIC	6.8%	2.5%

## Corporate Activity

THB Small Cap Portfolio Trailing 12 months (\$ in millions, except # of companies)	
Companies with Share Repurchases	50
Companies that Paid Dividends	44
Value of Share Repurchases	2,371
Value of Dividends Paid	2,035
<b>Total Capital Returned to Shareholders</b>	<b>4,406</b>
Number of Acquisitions	53
<b>Value of Acquisitions</b>	<b>6,500</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 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. 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.