

Portfolio Team



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



Manish Maheshwari, CFA
Principal
Portfolio Manager
22 years of experience



Keith Dickinson, CFA
Principal
Portfolio Strategist
18 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	\$301 million	
	THB	Index
Alpha	6.0%	—
Beta	0.94	—
Tracking Error	7.21	—
Sharpe Ratio	0.55	0.29
Info Ratio	0.78	—
Std Deviation	22.1%	22.4%

Market Commentary

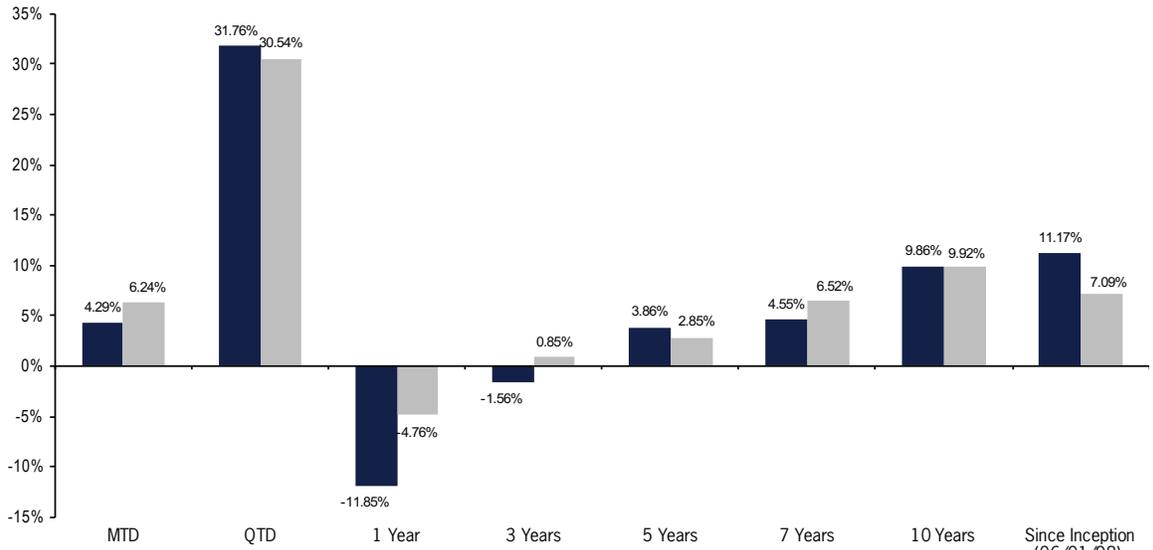
The Russell Microcap® Index (Index) returned +30.5% (USD) in Q2 2020.

Consumer Discretionary (+65.8%) was the best performing sector in Q2 followed by Health Care (+44.1%) and Information Technology (+34.4%). Energy (+1.9%) was the worst performing sector, followed by Utilities (+4.5%) and Financials (+1.2%).

US equities rallied this quarter as extreme views regarding the pandemic gave way to more rational thinking. Equities were led by strong performance from Small and Micro Cap stocks as the Russell 2000 and Russell Microcap returned 25.41% and 30.54% respectively. US Large Cap Stocks delivered a 20.54% return as measured by the S&P 500. The Equal Weighted S&P 500 outperformed the cap weighted index by returning 21.73% and highlighting good breadth in the markets.

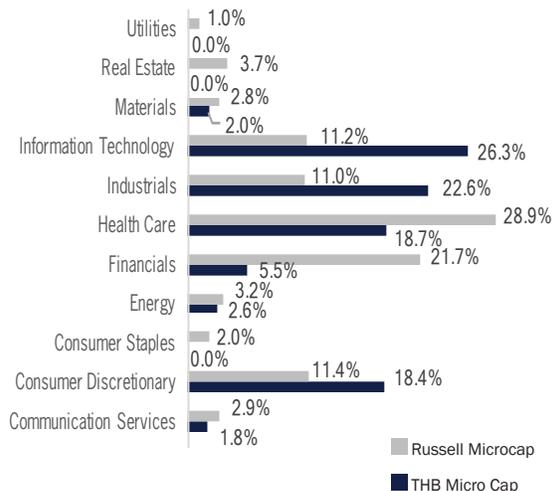
From the onset, we have believed COVIDs impacts would be transitory and have elements of natural disaster. Exhibiting a sharp, but brief drawdown in economic activity. There is an incredible amount of capital, bright minds and all the best medical technologies working towards a vaccine and/or therapeutic, mitigation efforts are in place, treatment procedures have been improved and the normal time element associated with all viral outbreaks is taking place. We continue to believe that there exists a high probability that some end to COVID is in the near future. The duration function of COVID is therefore sensitive to the ebb and flow of news. Positive news (vaccine, therapeutic, lower cases / mortality) shortens duration while negative news (higher infection rates, higher mortality rates, pushback of vaccine or therapeutic) elongates durations. We believe the sharp move higher off the March lows confirms that we are closer to the end of COVID and plan to use news flow related pullbacks to add to our favorite positions.

Performance Snapshot (Net of Fees)



1. Periods end 6/30/2020 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.

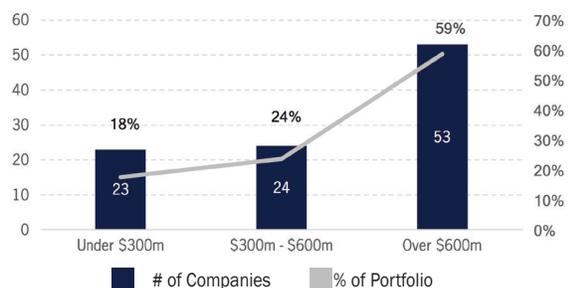
Active Management, High Active Share

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.

91.3%

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.



THB Asset Management
501 Merritt 7, Penthouse
Norwalk, CT 06851
www.thbinc.com

Portfolio Commentary

The THB Micro Cap Composite returned +31.8% in USD (net of fees) in Q2 outperforming the Index by 130 bps.

The portfolio saw positive contribution from overallocation to Consumer Discretionary (+2.5%), underallocation to Financials (+2.4%) and stock selection in Information Technology (1.2%). Negative contribution came mainly from selection in Health Care (-4.2%), underallocation to Health Care (-2.2%), and stock selection in Consumer Discretionary (-1.2%).

THB's top five performing stocks (from a contribution standpoint) were PAR Technology Corporation (Information Technology, +2.5%), Cardlytics, Inc. (Communication Services, +2.0%), Century Communities, Inc. (Consumer Discretionary, +1.4%), Jack in the Box, Inc. (Consumer Discretionary, +1.3%), and Ultra Clean Holdings, Inc. (Information Technology, +1.2%).

The bottom five performing stocks (from a contribution standpoint) were Hyster-Yale Materials Handling, Inc. (Industrials, -0.2%), ANI Pharmaceuticals, Inc. (Health Care, -0.1%), TimkenSteel Corp. (Materials, -0.1%), Graham Corporation (Industrials, -0.1%) and Frank's International NV (Energy, -0.1%).

For active managers, the panoply of company specific and industry drivers and risks creates a target rich universe. This is especially true for smaller companies whose businesses are sensitive to small changes and can quickly pivot their firms based on market and economic dynamics. Additionally, COVID did create elements of a normal business cycle in which creative destruction has allowed small, well capitalized, and managed firms to grow by acquiring weakened competitors or taking market share. We are finding companies who are benefiting from some COVID related changes and ones that are quickly adapting and will prosper through COVID and beyond.

As other countries realign their trade flows and allegiances, American entrepreneurial spirit, innovation, and ingenuity remain in place. The foundational elements of capitalism will serve to do what they always have done - propel this country forward. Americans are ambitious and have been led by generations of entrepreneurs. Now there is a clear chance for reshoring to take place on a very large scale. Bi-partisan support of numerous reshoring legislation exists and recent polling highlights a majority (80+%) of Americans are willing to pay more for domestically produced products and believe we rely too heavily on foreign countries for production of various goods and components.

The sharp recovery in equity markets reflects the optimism that the worst may be behind us. That optimism has been confirmed in better than expected employment data, improvements in high frequency data and increasing confidence levels. Optimism is a necessary ingredient for our economy to continue to improve as both consumers and businesses make decisions whether to spend or save. Household balance sheets are flush with cash and confidence levels are increasing leading us to believe this key pillar of the US economy will resume pre COVID levels of spending in a timely manner. Well capitalized corporations are beginning to invest excess cash flows through acquisitions of weakened competitors or expanding their market share. We believe well managed and strongly capitalized companies will continue to adapt and thrive in an ever-changing macro environment.

Portfolio and Benchmark Characteristics

Characteristics	THB Micro Cap	Russell Micro Cap
Holdings	100	1,323
Market Cap (\$, mil)	890	456
Dividend Yield	0.6%	1.6%
LT Debt/Capital	31.9%	31.6%
Price/Earnings	14.2x	—
P/E Forward	19.5x	—
Price/Book	1.8x	1.2x
Price/Sales	0.8x	0.6x
EV/EBITDA	10.7x	—
EV/Sales	1.1x	1.0x
FCF Yield	2.8%	-2.2%
Operating Margin	7.4%	6.4%
ROE	6.0%	-4.5%
ROIC	8.3%	—

Corporate Activity (as of June 30, 2020)

THB Micro Cap Trailing 12 months (\$ in millions, except # of companies)	
Number of Companies	100
Companies with Share Repurchases	59
Companies that Paid Dividends	32
Value of Share Repurchases	1,602
Value of Dividends Paid	546
Total Capital Returned to Shareholders	2,148
Number of Acquisitions	64
Value of Acquisitions	2,800

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 6/30/2020 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.